BRITAIN'S DILEMMA

*". . . of Thee we do beg
assistance. Direct us in
the right way" . . .*

BRITAIN'S DILEMMA

HIGH PRICES :— STRIKES | DEAR MONEY :— STAGNATION

BY

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TO THE CAUSE

OF

FAIR PLAY

BETWEEN MAN AND MAN—RICH AND POOR,

WEST AND EAST,

THIS EFFORT

IS

DEDICATED.

PREFACE

THE problem presented in the following pages is no new one. The world has faced a similar situation on at least two former occasions. What is new, however, is the effort now being made in London to effect a solution — an effort which, inevitably doomed to failure, so it is submitted, can only tend to aggravate the existing friction between labour and capital, and so retard that industrial progress upon which Great Britain's ability to withstand the increasing pressure of international competition mainly depends.

Those who may not be closely interested in the affairs of our vast Eastern Dependency are recommended to pass over Parts II. and III., and form their conclusions from the arguments and facts set forth in Parts I. and IV. All Anglo-Indians are earnestly invited to weigh the charges against the Finance Committee of the India Office, and to give their verdict openly and fearlessly.

If this book "smells of the lamp" (and keen critics will have no difficulty in detecting defects and repetitions), my apology is that only by a

liberal expenditure of midnight oil has it been possible to produce it at all. Even then it could not have been finished till a much later date except for the constant help of my wife.

My thanks are also due to friends in India and in England who have supplied me with material and advice, and in particular to the editors of the *Nineteenth Century and After* and the *Times of India* for kindly permitting me to reproduce in Chapters II., X., and the Appendices portions of articles which were originally contributed to their columns.

M. de P. WEBB.

Karachi, *April* 25, 1912.

SYNOPSIS

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"Money is perhaps the mightiest engine to which man can lend an intelligent guidance. Unheard, unfelt, unseen, it has the power to so distribute the burdens, gratifications, and opportunities of life, that each individual shall enjoy that share of them to which his merits or good fortune may fairly entitle him; or, contrariwise, to disperse them with so partial a hand as to violate every principle of justice, and perpetuate a succession of social slaveries to the end of time."

ALEXANDER DEL MAR.

PART I

THE CRISIS IN GREAT BRITAIN

" . . . Against the fairy story of last year's trade prosperity they had the fact that the wages of the working classes were no better, and the purchasing power of their wages was less. What was the use of all their beneficent legislation unless it was going to show its results in the improved conditions of the working people?"—Mr. PHILIP SNOWDEN, M.P., at Croydon, January, 1912.

BRITAIN'S DILEMMA

CHAPTER I

THE DILEMMA

COMMERCIAL and financial Britain is at present face to face with a dilemma of a kind unparalleled in the history of the United Kingdom. On the one hand, industry and progress are jeopardised by grave labour troubles—the inevitable accompaniment of the plethora of gold that is now inflating prices and so reducing real wages throughout the country ; whilst, on the other hand, finance and commerce are daily exposed to the hazard of high rates of discount arising out of the natural demand of India and the East to be supplied with gold from the small reserves in London upon which the gigantic credit business of Great Britain is delicately poised.

At first glance, it might be thought that the prosperity of our Indian Empire and its demand for gold in millions sterling were matters for con-

gratulation in Great Britain, and by the world at large. Such prosperity implies abundant harvests, great surpluses of produce for sale and export, immense traffic by rail and steamer, and expanding and profitable business to all concerned — traders, merchants, shipowners, financiers, &c. Further consideration, however, brings to mind the fact that although London is the chief market in the world for gold, a demand from India which, for large portions of the year, might easily exceed half a million sterling a week, would not improbably disturb the level of the London gold reservoir, and, by forcing a rise in current discount rates, affect the everyday business of all who borrow or lend money and credit. In order to prevent London's reserve of gold being thus depleted, it might be necessary for the Bank of England to advance its official discount rate so as to attract gold from other great financial centres. But an advance in discounts means that not only may money become dearer in London than in some great competing capital centres (thereby driving business away from London), but all those who carry on business by means of borrowed capital (probably 99 per cent. of the trading community) may have to pay more for what they borrow, and so may either earn less, or, if they increase the fixed charges on their transactions, possibly handicap themselves in their world-com-

petition for new business. Moreover, gold that leaves London for India is rarely or never returned from India; that, at least, has been London's experience up to the present. There seem some grounds, then, for resisting this growing demand on the part of India for more and more gold.

And yet the yearly output of gold from the mines of the world has now reached such a fabulous figure that the value or purchasing power of the metal is steadily diminishing. Prices are everywhere rising, and with each turn of the screw those whose slender earnings are only just sufficient to keep body and soul together (*i.e.*, nearly one-quarter of the nation) are obviously placed in a position of daily increasing difficulty. In such circumstances, can we feel surprised that a spark is sufficient to set the great mass of discontent into a national blaze? And though the conflagration may be temporarily suppressed, it must be obvious to all that, so long as prices rise more rapidly than wages—and experience shows that this mode of progression is inevitable where money is steadily diminishing in value—there is little possibility of the great multitude of fixed wage-earners improving their conditions of life, and settling down to careers of contentment and prosperity. Ten millions sterling are estimated to have been lost owing to the recent coal strike. Yet this must be

but the beginning of many similar troubles before us, if prices still continue to rise. Strikes in other branches of industry will assuredly develop before long. And such strikes—with all the losses and misery inseparable therefrom — will gradually assume a chronic form, unless their main encouragement (the present extraordinary production of gold) can be in some way checked or neutralised.

The most obvious method of arresting the fall in gold (and general advance in prices, with its corollary of labour unrest, strikes, and huge monetary losses to innumerable trade interests) is to encourage by every possible means in our power the further use and consumption of the precious metal. Fortunately, help is at hand in the abounding prosperity and yearly increasing purchasing power of our great Indian Empire. Let India, then, take all the gold she wants.

Here, however, we once more find ourselves face to face with the City of London. If India commences withdrawing millions after millions of gold from London, then discount rates must be raised to protect and maintain Great Britain's modest reserve of the yellow metal. And this may mean inconvenience and loss to the merchants and financiers of England. *Per contra*, if steps be taken to discourage and diminish India's demand for gold (either by transferring some of India's spare cash to London, or by offering the

peoples of India silver money instead of sovereigns), then the yearly increasing flood of new gold from the mines will assuredly further inflate prices and so probably promote speculation and financial crises, and certainly prepare the way for further combined demands for increased wages for the great multitude of fixed wage-earners. All which mean, eventually, more labour crises, more strikes, and more heavy losses to employers, employed, and to the nation at large.

Which alternative is the better? The dilemma is one which cannot be escaped, and must, therefore, be faced boldly. And the sooner the better. The inevitable results of the present policy of *laissez-aller* in connection with the world's output of gold and India's growing demands for the metal are already being reaped both in India and in England; and nobody who gives careful attention to the matter can doubt that those results have so far been deplorable in the extreme. Yet worse may follow, if no effort be made to deal with the situation.

Let us, therefore, hasten to survey the ground in somewhat greater detail.

CHAPTER II

THE WRONG WAY OUT OF THE DIFFICULTY [1]

In no period of British history has the national conscience been more keenly alive to the disabilities under which great masses of our population labour, or more genuinely anxious to alleviate those disabilities by the introduction of practical measures of reform, than at the present day. And nobody who visits the great mining and manufacturing centres of British industry, or inspects the poorer quarters of our largest and most famous cities, can doubt for a moment that there is much scope for the reformer's activities. At the same time, whilst there are many ready and able hands working at the amelioration of the social, industrial, and political conditions amidst which we are living, there is one factor in our national life—perhaps of greater importance than many others put together—to which the bulk of our people give little

[1] A portion of this chapter appeared in the *Nineteenth Century and After* for December, 1911, under the title of "The Coming Deluge," and is now reproduced by kind permission of the Editor.

or no attention, yet which is at the present moment undergoing a change calculated to vitiate much of the good reforming work being done in other directions. I refer to the purchasing and measuring function of the nation's money.

To appreciate clearly the vital importance of maintaining as far as possible the stability of our great purchasing and measuring instrument and standard of deferred payments, it is necessary to recall the fact that practically every transaction of our daily life—private, public, personal, corporate, national, imperial—is carried through directly or indirectly by the aid of money, and that any fluctuation in the value (*i.e.*, purchasing power) of money must, therefore, affect each and every individual in the State more or less seriously. The sudden, arbitrary changing of the pint measure to three-quarters of its ordinary capacity, or the extension of the standard yard to 46 or 56 or 66 inches would inflict far fewer and less serious injustices upon the community at large than the shrinkage of the sovereign from a purchasing power of twenty shillings to, say, that of only fifteen shillings. Nevertheless, it is a fact that a sovereign nowadays only goes as far as fifteen shillings did a little while ago. Our pound sterling has in reality during the last fifteen years lost more than a quarter of its purchasing power. Moreover, there are good reasons for believing

that this shrinkage will continue. It is quite possible that the distortion of our monetary measure now in progress is but the beginning of a movement that may conceivably prove more revolutionary than anything that the most extreme Socialists have yet imagined. Indeed, if the movement be rapid and continued in a marked degree, many forms of accumulated wealth must of necessity disappear, and in a way more complete than could be effected by the most drastic of class legislation. At the same time, if such a shrinkage in monetary values should come to pass, the rewards of labour would also slip through the fingers of the poorer classes. For prices always rise before wages in such circumstances, and the labouring man would, therefore, find himself the victim of a cruel delusion—the seeming prosperity of increased earnings being invariably discounted by a still more rapidly advancing cost of living. What was gained in one direction would be lost in another. And with the result that great masses of our population, notwithstanding every effort to assist and raise them, would perforce, for want of means, remain in the same condition of poverty, degradation, and arrested development as that in which we see them to-day.

But, it will be asked, why has our good British sovereign shrunk in value? And what grounds are there for conjuring up this nightmare of a

further shrinkage? The answer is simple. Like every other commodity in this world, although in a different way and to a different degree, gold is subject to the laws of supply and demand—an increased demand tending, all other things being equal, to raise its value and an increased supply to diminish its value. During the last half-century there has been a vastly increased demand for gold, practically every great nation in the world abandoning silver as a chief monetary instrument, and adopting in its stead the more precious yellow metal. *Per contra*, in England and in certain other Western countries very great economies in the use of gold have been effected by the continuous development of banking, of cheques and bills of exchange, and of credit facilities of all kinds. At the present moment, with mints open to free coinage of gold, the value of every ounce of new gold unearthed is determined by the purchasing power of the gold coins already in use. At the same time, the purchasing power of the gold moneys in use obviously bears some relation (though a relation difficult to define mathematically) to the amount of gold coined and uncoined, in the possession of mankind and actively employed. Exactly what this amount is nobody can say with any degree of certainty, nor is there any need for us to attempt an estimate at the moment. Suffice to say, that the output of new gold from the mines of

the world during the last few years has altogether eclipsed anything known in history. Moreover, there seems every probability of the output increasing. With an immense flood of the precious metal of unprecedented magnitude pouring into the centres of civilisation, commerce, and government, can we feel surprised that, notwithstanding the additional demand for gold, its value all the world over is steadily diminishing, that its purchasing power is shrinking—in other words, that prices generally, measured in gold, are everywhere advancing?

The same thing has happened before, and with precisely the same results. The middle of the sixteenth century was marked by extraordinary discoveries of silver in South America and Mexico. The precious metal was shipped across the Atlantic and slowly found its level in the currencies of Europe, with the result that the purchasing power of money dwindled in an extraordinary way. Sir George Evelyn, in his paper contributed to the Royal Society in 1798, attempted to prove that between 1550 and 1795 the level of prices rose 400 to 500 per cent. Although his conclusions have been severely criticised by Hallam and others, there is no doubt whatever that prices at least doubled (in other words, that our Monetary Measure shrank by at least one-half) during the period referred to. The

greater part of the change occurred within a hundred years of the discovery of Potosi.

During the first half of the last century, when the effects of a greatly reduced output of gold and silver from the mines of the world were emphasised by the rejection by Great Britain of silver as a chief monetary instrument, prices dwindled very seriously—over 45 per cent according to Mr. Sauerbeck, and nearly 60 per cent. according to Jevons. Then came the marvellous discoveries of gold in California and Australia. The effects were at once apparent. Prices quickly swung round, and an upward movement set in, traces of which can be discerned till nearly the middle of the seventies. The distortion in our Monetary Measure was very marked at first, the sovereign losing some 25 per cent. of its value between 1849 and 1857. Subsequently a partial recovery took place ; but there is no question that the increased output from the mines materially affected for a number of years the value of all the gold and gold money then existing, seriously distorting its purchasing and measuring functions, and inflicting corresponding injustices upon all those dependent upon fixed wages, incomes, pensions, and the like.

Astounding as the flood of gold from the mines of California and Australia seemed to our fathers, it was, as a matter of fact, quite a small

matter in comparison with the great deluge of precious metal that is now steadily spreading over the surface of the civilised world. The average annual production of gold for the first half of the nineteenth century was only about £3,150,000. Then came the most wonderful discoveries ever known up to that time. The world's output for the next ten years was approximately as under :—

	£		£
1851 ...	16,600,000	1856 ...	29,520,000
1852 ...	36,550,000	1857 ...	26,650,000
1853 ...	31,090,000	1858 ...	24,930,000
1854 ...	25,490,000	1859 ...	24,970,000
1855 ...	27,010,000	1860 ...	23,850,000

Can we feel surprised that the whole world became delirious with excitement—many forsaking all and rushing in flocks to the goldfields, others foreseeing dire disaster and social chaos in the monetary revolution that seemed inevitable? And yet, what was that production compared to the output that we have been receiving during the last ten years? Here are the figures :—

	£		£
1902 ...	60,869,000	1907 ...	84,904,000
1903 ...	66,650,000	1908 ...	91,450,000
1904 ...	70,688,000	1909 ...	93,000,000
1905 ...	76,675,000	1910 ...	96,000,000
1906 ...	82,569,000	1911 ...	97,000,000

Over 800 millions sterling of new gold added to the world's stock in the last ten years,

as compared with the 267 millions added in 1851-60. Where will it end? And where will it land us all?

The relation between money and price levels has been the subject of innumerable disquisitions during the last hundred years. It is only necessary to mention such names as Jacob, Tooke, Newmarch, Cairnes, Macculloch, Ricardo, Chevalier, Bagehot, Jevons, Giffen—such Professors as Lexis, Rogers, Walker, Nicholson, Foxwell, Marshall, Price—such Index Number Specialists as Dr. Soetbeer and Mr. Sauerbeck, to recall the wealth of expert knowledge that has been brought to bear on this question. Until the beginning of the nineteenth century the relation was, no doubt, a comparatively intimate one (as it is to this day in India and other parts of the East where but little advance has been made by the people at large beyond the stage when metallic money forms the chief instrument of purchase); but with the growth of banking and the multiplication of credit-spinning devices such as those with which we are familiar at the present day, the connection between price levels and the volume of metallic money in use has become greatly obscured. So much so that there are not wanting advocates of the theory that credit, and not metallic money, is now the determining factor in the problem. Whilst in highly developed States

the relation between the instrument of purchase and the commodity purchased is admittedly most difficult to define, there can be no doubt that the relation is there. The connecting link, as has been proved by Bagehot, Giffen, and others, is to be found in the bank's reserves. In its issue of January 21, 1911, the *Statist* published a table showing that the gold holdings of the chief central banks of the world, and Treasuries which act as central banks, had increased from £500,267,000 on December 31, 1900, to £886,447,000 on December 31, 1910—an increase of over 77 per cent. These increased gold reserves imply a great expansion of credit. So that whether we regard credit or metallic money in active use as the determining factor in the adjustment of price levels, an inflation of prices (*i.e.*, a fall in the purchasing power of money) seems now inevitable. As a matter of fact, this inflation of prices is at present actually in progress, as the Index Numbers regularly published by the *Economist* and other authorities clearly prove. As the regular annual output of gold is now of unprecedented magnitude, and as there exist no reasons whatever for anticipating any serious diminution in this phenomenal output, the conclusion seems inevitable that the fall in gold must continue. Again we ask, Where will this distortion of our Public Measure of Value end? And where will it land us all?

In view of the exceptionally grave nature of the possibility before us—the shrinkage in wealth of many of our capitalists and property-owners, and the arrest of material progress and social betterment so far as the great majority of our population—the fixed wage-earning classes—are concerned, it may be well to consider what policy is best calculated to avert the consequences of the deluge of gold that is now threatening to submerge us. Theoretically, two courses are open—to increase demand and to restrict supply. Practically, we can only attempt the former; for although over 55 per cent. of the world's supplies of new gold are obtained within the British Empire, it is beyond the range of practical politics to check the economic development of South Africa, Australia, Rhodesia, India, Canada, and other portions of the King's oversea dominions in respect of gold-mining, no matter what the consequences of the golden deluge may be. (By the way, it is perhaps not generally known that over 2,000 millions sterling in gold has been proved to exist in the main reefs of the marvellous Witwatersrand alone. Heaven only knows what may be discovered hereafter in other parts of the Transvaal or of Rhodesia. The whole country is highly mineralised. Australia and Central Asia, too, have hardly been scratched yet, as a whole; so there are many possibilities in the direction of

still more gold discoveries.) Unable, then, in any way to influence supplies, we are thrown back for our remedy on the only other economic alternative —an increased use and consumption of the precious metal. Here, fortunately, it may be possible to set machinery in motion that might conceivably correct in some degree, if not wholly, the distortion now taking place in our Public Measure of Value. Thus Government, if backed by public opinion, could not only make a far larger use of gold itself in England, and in other parts of the Empire, but it could, by legislation, compel those who trade in money and make a business of receiving and safeguarding the nation's ready cash, to afford the public a metallic security more adequately proportionate to the magnitude of their liabilities than is at present customary. In these ways the demands for gold could undoubtedly be considerably increased, greatly to the benefit of the people at large.

A satisfactory feature of the policy here outlined is the fact that it exactly coincides with the course urged by many patriotic and eminent thinkers on entirely different grounds. Thus, the political necessity of a substantial war reserve in gold is a point which we alone, of all the great nations of the earth, deliberately neglect. Germany, Russia, France, and other countries hold immense reserves of gold for political ends ; we

trust entirely to private interests for the "sinews of war," and expect the great banks and finance houses to shoulder our monetary liabilities in times of national emergency. This they will no doubt do, as far as they can—and for a consideration. As has been very forcibly pointed out by Mr. Edgar Crammond in Manchester two years ago, and again before the London Chamber of Commerce last year, financial preparation for war forms as vital a part of our scheme of Imperial defence as naval and military preparation. Why, then, should we neglect this most important factor? Why should we continue to expose ourselves to the tender mercies of an enemy who, profiting by Napoleon's miscalculations in this respect, and by the additional knowledge now available to all who care to imbibe it, would have no difficulty in engineering a very formidable raid on our private reserves of gold, thereby creating trouble and confusion in our midst at the very moment when we should require all our money as well as all our wits? It has been said that if such a raid failed, we should make matters extremely uncomfortable for the would-be raiders. The same might be assumed of any raid, naval and military, as well as financial. Further, it has been argued that if Government created a special political reserve of gold there would be great difficulty in preventing the business world from utilising that gold for

its own purposes. Possibly so. That would depend upon the strength and personnel of Government. Be this as it may, there are at least two reasons of great weight why Government should hold a substantial reserve of gold of its own for political emergencies.

So, too, there are reasons why Government should hold another reserve of gold in connection with its commercial obligations. Against the liabilities of the Post Office and Trustee Savings Banks Government holds practically no reserves at all, only a little till money—some £300,000. And yet the total due to depositors (exclusive of Government stock held on their account) exceeds 200 millions sterling! Just as in the case of Imperial defence, Government look to private financiers to work for nothing.) At the same time, with cash in time of stress. And here again Shylock will no doubt do all in his power—at a price. (We obviously have no right to expect financiers to work for nothing.) At the same time, a serious run on the Government Savings Banks would of necessity very greatly inconvenience the money market.

The laxity of the Government in the matter of its own political and commercial reserves of gold is doubly dangerous in view of the admitted insufficiency of the gold reserves at present held by the Bank of England and other private banking

and financial institutions. From the days of Jevons and Bagehot up to the present moment every experienced economist has warned the nation against the inadequacy of its gold reserves. Newspapers of every shade of political opinion from the *Times* downwards have urged that the Bank of England's gold reserves are insufficient in comparison with the current liabilities of the banks of the United Kingdom. The trading public, through the agency of the Associated Chambers of Commerce of the United Kingdom, have over and over again hammered at this subject, but without practical result. Politicians, even, have joined in the cry. Thus, Mr. Asquith, when Chancellor of the Exchequer, at a bankers' dinner in London in May, 1906, said that this question of the gold reserves was ". . . a matter of grave and increasing importance, and it was at that moment engaging his most serious attention . . ." The late Lord Goschen followed at another bankers' dinner in July, 1906: ". . . Here we are with enormous liabilities, and with a smaller stock of gold than any other country holds. . . . It is not a satisfactory situation. . . ." Yet, in spite of this unanimity of opinion, nothing has been done. The one and only remedy is legislation that will compel all who deal in the savings and cash reserves of the people to hold a certain proportion of their liabilities in gold. In this way private reserves

of gold of a substantial volume would be accumulated and available in times of emergency. The dishonest practices now resorted to by certain banks of borrowing indirectly some thirty millions sterling from the Bank of England in the last week of December for a few days simply to show to the public substantial balances in "Cash and at the Bank of England" at the close of each year (when accounts are published) could be abandoned for ever. The public would see for itself that each bank's cash reserve came up to statutory requirements.

Here, then, we have three new demands for gold calculated to add materially to the nation's political and economic strength, and also, though possibly in but a small degree, to correct the serious distortion in our Monetary Measure that is now threatening us. The demand that could confidently be expected to arise from an extension of Government's gold-using policy to other parts of the Empire would be very much more effective, and might perhaps in itself be relied upon wholly to correct the shrinkage in gold values that is the subject of the present inquiry. In this connection we have the experience of the past to guide us—an experience identical with that through which we are now passing, and invaluable to us, therefore, in our effort to find a solution to the present gold situation. When, in the middle of

the last century, gold commenced to pour over the world from the mines of California and Australia, the economists and learned societies of the day were filled with alarm lest the flood of metal should so depreciate its value as to sweep away property and accumulated savings, and reduce the Western world to a condition of chaos. The writings and sayings of Chevalier, Cobden, Jevons, and others are well known in this connection. The gloomy forebodings of the economists, however, were not fulfilled, for although there was a very marked depreciation of gold, the fall was soon arrested. How it was that the best economists of the day proved to be so far out in their prognostications has been the subject of many inquiries since. Their theories were unimpeachable and most of the facts upon which they based their conclusions were also beyond question. There were two or three matters, so it turned out, the importance of which Chevalier and others failed to appreciate accurately. One of these was the magnitude of the then existing stocks of metallic money in relation to that of the new supplies; a second was the magnitude of the increased demands for money consequent upon the rapid development of America and Australia. A third, and the most important of all, was the part played by India in this connection. Scared at the prospect of rapid depreciation of gold, the Government of

India by an Ordinance dated December 22, 1852, declined to receive any more gold mohurs at their Treasuries. The peoples of India were therefore restricted by Government's interposition to silver for their chief monetary instrument. From early times the demands of the East for the precious metals have been an important factor in determining the effects of supplies upon price levels. After the suppression of the sepoy Mutiny the trade of India expanded rapidly, and the demand for Indian cotton consequent upon the deficiency of American cotton during the Civil War in the United States, turned the balance of trade heavily in favour of India. Silver poured into India in phenomenal quantities, so much so that the Bombay Chamber of Commerce in 1864 feared ". . . that the continued movement of silver to India must bring destruction to the silver standards of all other nations. . . ." As a matter of fact the enormous withdrawals of money from Europe in response to the demands of India very largely counteracted the effects of the great flood of money flowing into Europe from the mines of California and Australia. In short, it was the unexpectedly heavy demand for metallic money in the East that explains the failure of the economists to measure the probable extent of the fall in gold which the phenomenal output from the mines of America and Australia seemed certain to produce.

And just as India proved the saviour of Europe fifty years ago by arresting a distortion in the Public Measure of Value that might have paralysed large sections of the peoples of the West, so, too, at the present day, when a similar distortion is again threatened, India can once more come to the rescue by drawing off a substantial volume of the present flood of gold. By a strange irony of fate, it happened that the Government of India in the early 'nineties were once again alarmed at the prospect of a serious depreciation of their currency—silver this time—and, backed by the authority of a committee of London experts,[1] they suddenly closed their mints in 1893 to the free coinage of the white metal. A gold standard with, if possible, a gold currency was the policy then adopted. At the time, public opinion in India was by no means unanimous as to the wisdom of this step, but subsequent events—in particular the chronic mismanagement of both Reserves and Currency, and the complete and constant subordination of India's interests to the requirements of the London money market—have brought the peoples of India to the conclusion that the sooner they adopt gold money in practice as well as in theory, the better. All the Chambers of Commerce of India are unanimous in their demands

[1] The Herschell Committee, *vide* Appendix A.

that a substantial portion of the Indian Gold Standard Reserve should be held in gold in India, whilst so able and prominent a man of commerce as Sir Vithaldass Thackersey has proposed at the Imperial Council in Calcutta that the use of gold in India should be encouraged by the minting in India of distinctively Indian gold coins of smaller value than the English sovereign—a proposal which the Finance Member, Sir Guy Fleetwood Wilson, very wisely promised should have his most careful consideration.

Remembering the magnitude of the deluge of gold that is now threatening the world—remembering that the first effects of this deluge have already made their appearance in a marked depreciation of the metal—a distortion of our monetary measure—that involves cruel injustices to all the poorer classes of the kingdom, recalling to mind, too, that Government have declared in favour of gold for India's monetary standard and currency system, and were, in fact, only a few years ago doing their utmost to introduce sovereigns into circulation, it might be thought that the present demand for gold from India would have been received with alacrity by the officials of the India Office. It happens, however, that the India Office is in London, that the men whose expert knowledge guides the Secretary of State in these matters (such as Sir Felix Schuster, Sir James Mackay—

now Baron Inchcape—Mr. Lawrence Currie) are all closely interested in the welfare of certain great banks in London, and that in these circumstances the atmosphere, the point of view, the interests nearest at hand, and the requirements from day to day of the London money market would be more likely to influence the Secretary of State for India in his decision as to the best course to follow than the more remote and less impressive demands of the various people of India. In addition to these considerations, financial newspapers of a certain standing, such as the *Statist*, discussed the whole subject of India's new thirst for gold with a warmth and picturesqueness that undoubtedly reflected the attitude of mind of many prominent lights of the London financial world. Thus, in its issue of April 15, 1911, the *Statist* remarked that "it was bad enough . . ." that last year the Indian people should have imported something like eighteen millions sterling of gold, but that they should be encouraged to go on importing more gold with the object of building up a gold currency was ". . . astounding folly." The reason for the *Statist's* vigorous condemnation of Sir Guy Fleetwood Wilson's efforts in this direction as "hare-brained" may be gathered from the following significant passage, which I quote verbatim: The Government of India's policy (of carrying out the recommendations of the Indian Currency

Committee and establishing a gold currency in India)—

> ". . . would, if acted upon, enormously injure India, it would be a very serious matter even for the rest of the world. India last year took for trade purposes, for ornaments, and for hoarding, as nearly as can be estimated, about eighteen millions sterling in gold. If she is to continue that practice and is to add to it an immense accumulation of gold for coinage purposes, what will be the result upon the money markets of Europe and America? We grant that the Indian Government is not bound to look after the interests of other countries. Still, the Indian Government draws its power from the United Kingdom, and unless the interest of India really requires it, the Indian Government should do nothing to injure the United Kingdom. But, clearly, it would injure the United Kingdom if the Indian Government were to adopt a policy which might mean the absorption by India for coinage, trade, ornaments, and hoarding purposes of gold to the amount of from 50 to possibly 100 millions sterling a year. It is a grave matter that, before there is any talk of a gold currency, India should, for trade and hoarding purposes, in a single year, absorb nearly eighteen millions sterling of the metal. If she goes on doing so, unquestionably she will affect the European money market, unless the United States is wise enough to reform its currency system and let out a great deal of the gold it has accumulated. . . ." [1]

Here we see one horn of the dilemma. The other—a phenomenal output of gold from the

[1] For a reply to the *Statist*, see Appendix D.

world's mines of such appalling magnitude as to distort the monetary measures of the world and so prepare the way for panics, strikes, Socialism, Syndicalism, and what not, is completely ignored.

Unfortunately, the wrong counsels, for the time being, prevailed ; and Lord Morley was led to place the prestige and power of the India Office at the disposal of that school of London financiers who, looking only to their own immediate interests, decided that notwithstanding the coming deluge of gold, India should not be allowed to draw off one single drop more of the precious flood than could possibly be prevented. The means employed for this end were the continuous transfer to London of any and all State funds in India upon which the India Office could conveniently lay hands. Whether the India Office had any *right* to the money—whether the India Office had any *use* for the money—these were considerations that were wholly ignored, or, if considered, quietly put aside. It was sufficient that by transferring State funds from India to London, the balance of indebtedness to India which could (and should) have been adjusted by shipments of sovereigns to India was temporarily changed, and gold thus saved to London for the time being, for the further use of the London money market.

This deplorable subservience of a great depart-

ment of the State to the temporary financial needs of a section of the London money market has resulted in a scandal of unprecedented magnitude with which all India is now ringing. The subject is so important that it commands special consideration.

PART II

THE INDIA OFFICE SCANDAL

"*The actual cash balance standing to the credit of the Secretary of State for India on the evening of March 8th, exclusive of the amount held on account of the Gold Standard Reserve, was £17,953,995 18s. 3d.*" (Mr. Samuel Montagu's reply on March 11, 1912, in the House of Commons to Colonel C. E. Yate's question regarding the amount of cash then held in London on account of the Government of India.)

CHAPTER III

THE CHARGE

During the last few years a condition of affairs has developed at the India Office which causes profound anxiety in the minds of those who watch the details of Great Britain's administration of her great Eastern dependency. Plainly stated, the India Office is charged with misapplying vast sums of money—the property of the peoples and Government of India, and that, too, in face of continued protests from several quarters in India, not the least important being—so it is generally believed—the Government of India itself.

These alleged misapplications of India's money refer to :—

1. *The Indian Paper Currency Reserve*, of which over £8,000,000 are said to have been unnecessarily transferred from India to London.
2. *The Indian Gold Standard Reserve*, of which over £17,000,000 have been removed to London from India in face of

protests by both Press and Chambers of Commerce.

3. *The Floating Cash Balances of the Government of India,* of which apparently some £10,000,000 or more have been taken out of the treasuries in India, lodged in the Home Treasury at the Bank of England, and subsequently lent out—millions at a time—with and without security, to certain London joint-stock banks and other "approved borrowers" at rates of interest far below what could be obtained in India itself.

It is alleged that the removal of these huge sums of Indian money from India to London have been carried out at the expense of India, and to the direct loss of (*a*) many of those in India immediately engaged in the development of Indian finance and commerce, and of (*b*) the Indian taxpayer generally. Thus it is argued, with reference to the Gold Standard Reserve, that whilst it is no doubt possible, by altogether ignoring the risk of a great European war involving the United Kingdom, and the monetary chaos that such a war would inevitably produce, to put forward good reasons for holding some portion of the Gold Standard Reserve in London, still, it is impossible to justify the transfer of practically the whole of the reserve. The removal of over 95 per cent. of

the reserve from India to London, and its subsequent investment in British and Colonial securities, involve, it is protested, in the present condition of European politics, an altogether unwarrantable exposure of India to dangers against which it is the duty of the Secretary of State to protect his trust. The Secretary of State for India is charged with a failure of duty in this particular respect.

Then with regard to the paper currency reserve. This paper currency, it is explained, only circulates in, and is only legal tender in, India—not in London. The metallic support to this currency is, therefore, only required, and can only conceivably be required, in India. Why, then, transfer over £8,000,000 of the reserve to London? As well might the Bank of England's reserve against its note issues be held in Calcutta, or Montreal, or Sydney, as to hold the Government of India's reserve against its local paper currency in London. If experience prove that a substantial portion of the reserve can with safety be invested, then, clearly, all such investments should be made in India itself, not in London. Indian Government paper and quasi Indian Government securities are always obtainable in India. Further, the great banks in India would no doubt be only too glad to have an opportunity of paying good rates of interest on any money specially deposited by Government with them—and to lodge with Government

proper security there against. Investments in such directions would be of the greatest use to India, and would free private capital for employment in other directions in India. Why ignore these facts, and, having withdrawn the much-needed money from India, invest it or lend it out on less favourable terms to India in the London money market?

The case is even still stronger in relation to the employment of the Government of India's surplus cash balances. In the first place, if the revenues of the Government of India are so calculated that a cash balance of from five to fifteen millions sterling lies idle in the till, then it is quite clear that India is being over-taxed. This is, in itself, bad finance, calling for immediate correction in India. If, however, in spite of the utmost care in budgeting, the accounts yield a surplus of cash for which the Government of India have no immediate requirement, then the fair course to India is to lend out that surplus in India itself, *not* transfer it to London and there give it away secretly at rates of interest lower than those current in India, to London joint-stock bankers, bill-brokers, finance houses, bullion-dealers, and others who may, or may not—probably not—employ the money directly to the benefit of India. This duty is all the more imperative because, as all the

world knows, one of the most crying needs of India at the present day is more capital wherewith to develop her incomparable natural resources. Moreover, India is willing to pay a higher price for the capital that she desires to borrow than is ordinarily paid by first-class borrowers at home. And yet the India Office has ignored these well-known facts, and withdrawn the Government of India's surplus cash balances to London to the extent of many millions sterling. Thus, it is alleged, a double injustice has been perpetrated on unfortunate India.

That something is very seriously wrong at the India Office is transparently obvious when the cash balances held by the Secretary of State for India on behalf of the Government of India are examined. In Great Britain the Chancellor of the Exchequer generally so arranges his income and expenditure that he is frequently in debt to the "City" to the tune of several millions. (Mr. Lloyd George's overdrafts recently attained the impressive total of £13,000,000, of which, by the way, the Secretary of State for India lent him £4,500,000 of India's money.) Now, contrast this system of finance with that of the Secretary of State for India. Instead of cutting his balances so fine as to run the risk of getting into debt, the Secretary of State for India goes to the opposite extreme and holds such gigantic sums of cash

in his till on behalf of the Government of India as to create a grave scandal in the eyes of the peoples of India. Here are the figures. They represent the *Cash Balances* held in London on behalf of the Government of India by the India Office on the last day of December of each of the following years:—

			£
Cash balance, December 31, 1907		...	4,607,266
,,	,, 1908	...	7,983,898
,,	,, 1909	...	12,799,090
,,	,, 1910	...	16,697,245
,,	,, 1911	...	15,292,638
,,	March 8, 1912	...	17,953,995

Has any Government official (or any private individual, for that matter), in any country of the world, at any period of recorded history, ever held such cash balances as these?

The official rates of interest in India of the Presidency banks—the Bank of Bengal, the Bank of Bombay, and the Bank of Madras—rarely sink below 4 or 5 per cent., whilst in the busy season—*i.e.*, in the cold weather or winter—the official rates rise to 7 or 8 per cent. Compare these rates with those at which the India Office has lent out the Government of India's cash balances in London. In reply to a question at the Imperial Legislative Council at Calcutta on March 22, 1912, the Government of India stated that on December 31, 1911, the India Office had lent out in London

without security to "approved banks" £3,715,000, and with security to "approved borrowers" ("houses of the highest standing," Lord Morley once described them) £10,659,000. Further, that "the approximate average rate of interest for the year ending March 31, 1912, on the loans to approved borrowers on security was calculated to be 2·60, and on the deposits with approved banks 2·43 per cent. per annum." It seems quite clear that the India Office has withdrawn money from India, where it was very badly wanted, and where high rates of interest might have been obtained for its use, much to the benefit of India, and has lent out that money in London at much lower rates of interest (only about 2½ per cent.), to the inconvenience and loss of the general taxpayer of India.

The remarkable activities of the Financial Department of the India Office do not end even at this point. At the same meeting of the Imperial Legislative Council as that above referred to the Hon. Mr. Armstrong, of Bombay, inquired: "How much floating debt had been issued during the current financial year and how much repaid?" The reply of the Government of India was: "No new floating debt was issued during the current year, *although £4,500,000 of bills were renewed*, the amount repaid was half a million . . . the average rate of interest on the India bills renewed

during the current year was 2·97 per cent." This seems to mean, in simple language, that whilst the Secretary of State holds on behalf of the Government of India a cash balance running into several millions sterling, which he lends out with one hand at approximately 2½ per cent. to borrowers in the City of London, with the other hand he borrows back his own money, in effect, in the same money market at about 3 per cent. per annum. Where the peoples and Government of India benefit by this transaction, it is difficult to see.

Who is responsible for all these financial transactions? Though the currency and financial policies of the Government of India and of the India Office have been the subjects of a constant fire of adverse criticism in India since the closing of the Indian mints to the public in 1893, it has not been till the regime of Lord Morley that transactions have taken place which have created the impression in India that India's finances and currency are now managed, not so much in the interests of India as for the benefit of certain sections of the London money market. Amongst Lord Morley's great talents nobody has yet ventured to include a special insight into monetary and financial matters ; and it is doubtful if Lord Morley himself would lay claim to any special qualifications in the realms of high finance. He

did, therefore, what any Secretary of State in his position might be expected to do. With the permanent head of the Financial Department at the India Office, Mr. Lionel Abrahams, C.B., he associated two members of his own Council possessed of special knowledge of financial and commercial matters—Sir Felix Schuster, Bart., Vice-President of the India Council, Governor of the Union of London and Smith's Bank, &c.; and Sir James Mackay (now Baron Inchcape), Director of the British India Steam Navigation Company, original head of the Currency Association in Calcutta (who pressed upon the Government of India the necessity of abandoning silver and passing over to gold for India's currency system), &c. These three gentlemen were Lord Morley's chief advisers in financial and currency matters, and upon their shoulders rests a large share of responsibility for the state of affairs that is at present the object of so much adverse criticism throughout India. Mr. Lionel Abrahams now holds another appointment; the late Assistant Secretary, Mr. F. W. Newmarch, is at present the Permanent Financial Secretary; whilst the Marquess of Crewe has succeeded Lord Morley. Upon Lord Crewe, therefore, rests the ultimate responsibility for setting the India Office in order.

Lord Crewe's Parliamentary Under-Secretary is the Hon. E. Samuel Montagu. It is an omen of

some significance that whilst Mr. Montagu replies in Parliament to an inquiry regarding the course which the India Office proposes to adopt in view of the phenomenally large cash balances now held in London, by volunteering information that has little or no bearing on the subject before the House, Messrs. Samuel Montagu & Co., the well-known bullion-dealers of Old Broad Street, at the same time maintain a running defence of the India Office's financial policy in their weekly trade circulars by methods that also include a frequent use of that ancient device the red herring. The public are hardly likely to be misled by such doings. Their drift is quite obvious to all in India.

Having briefly set forth the charge against the India Office—a charge of having misapplied vast sums of the Government of India's money for the benefit of certain London interests, and at the expense of the peoples and traders of India—let us next explain in some further detail how the present extraordinary situation has arisen.

CHAPTER IV

THE CHARGE EXPLAINED

INDIA, like Canada, Australia, and South Africa, is indebted to Great Britain for large sums of capital lent to her from time to time for the purpose of assisting in the development of her vast natural resources—mainly for railway construction and irrigation. The annual charge for interest on this capital debt now amounts approximately to £10,000,000. In addition to this sum, India has to pay Great Britain about £4,000,000 per annum in connection with her military and naval armaments (for pensions, furlough allowances, passage money, troop services, &c., payable in England); and £2,000,000, roughly, in connection with her Civil servants (mainly for pensions and leave allowances). Considering the size, population, and wealth of the Dependency, India's home charges are by no means great. And she certainly receives very good value for her money.

What is the best way of making these annual payments, in practice? In the cases of Canada,

Australia, and South Africa, it is customary for the Governments of those dominions simply to arrange for the payment of their home charges to be made in London through the agency or by means of the drafts of their leading banks. The Bank of Montreal, the Bank of Australasia, the Standard Bank of South Africa, the London County and Westminster Bank, the Bank of England, and other well-known banks are used in this connection. A similar arrangement might have been concluded in years long past by the Secretary of State for India except for the facts that :—

1. The sums to be remitted in the case of India were very large in comparison with home charges of the young colonies.
2. The Government of India had been scared into the abandonment of their gold coin (the old gold mohur) and the adoption of a purely silver monetary system at the time of the great Californian and Australian gold discoveries, when it was thought by many that a serious depreciation in gold was about to take place ; and consequently there was a break of gauge between the gold monetary system of England and the silver system of India, which subsequently greatly complicated the problem.

3. The India Office was, and is still, very jealous of its powers and privileges, declining to permit private interests to secure the advantages of individual enterprise in any direction where such enterprise was thought likely to clash with benefits that might be secured by the India Office, or the Government of India itself. This spirit was probably inherited from the old East India Company, who were, however, a business concern pure and simple, and who looked generally to the profits on their own various enterprises before considering problems connected with their obligations to the peoples they governed.

In the above circumstances it came about that the Secretary of State for India decided to keep the remittance of India's home charges entirely in his own hands, neither inviting private Anglo-Indian enterprise to take a share of the work (as is customary in other parts of the Empire) nor permitting Indian banks or Indian financiers to reap any profits that might be secured locally from the business. The Secretary of State has been in a position to do this because from time immemorial India has produced and sold to foreigners far more goods than she has been in the habit of buying from them, with the result

that there has generally been (in years of good rains) a substantial balance of indebtedness in India's favour, which India has often adjusted by large importations of the precious metals. This condition of India's foreign trade has meant that banks and others engaged in the development of Indian trade have always required supplies of Indian money in India to finance this trade. This requirement was one which the Secretary of State for India could readily satisfy—up to the extent of the £15,000,000 to £16,000,000 payable annually in London by the Government of India—because the Government of India were always accumulating large collections of revenue in their various treasuries in India at the same time that they were running up sterling obligations in London. What more simple than for Government to sell to the banks and others some of the rupees that had been collected and were lying idle in the Indian treasuries, in exchange for sovereigns to be paid to the Secretary of State for India in London? Such a transaction would obviously suit both parties, yielding, as it would, £15,000,000 to £16,000,000 in London, exactly where Government required the money, and an equivalent volume of rupees in India, where the banks and the public wanted cash to finance India's surplus export trade. And if the money could be made available to the India Office week by week in London, it would be

still more convenient, both to the India Office and to the banks and public. Thus arose the Wednesday auctions of the India Council's drafts on the Indian treasuries at Calcutta, Bombay, and Madras—auctions that are held weekly at the Bank of England to this day.

There can be no doubt that for a certain period in Indian history, namely, for the larger portion of the twenty years ending in June, 1893 (when the Indian mints were closed to the public), these weekly auctions in London of the Secretary of State's rupees afforded the best means of adjusting India's sterling obligations to the United Kingdom, the reasons being as follows. Owing to the demonetisation of silver and the adoption of gold only as a monetary standard by Germany in 1873 (at the conclusion of the Franco-German War), and the closing of the mints to the public to the free coinage of silver by France and by the other countries of the Latin Union in self-defence against Germany's action, the value of gold commenced to rise and the price of commodities in general (silver included) to fall. This disturbance in the relative values of silver and gold was a source of very grave embarrassment to the Government of India, because with each rise in the value of the sovereign, it cost the Government of India more rupees to procure the sovereigns that they required for the payment of their home

charges than before. In those days the Indian mints were open to the public to the free coinage of silver, and anybody who required rupees had only to purchase silver in the market at the current price of the day, and present the metal to the mint authorities in Calcutta or Bombay for manufacture into money, to obtain as many rupees as might be required. It followed, that in order for the Secretary of State for India to be able to find purchasers for the ready-made rupees in the Indian treasuries (accumulated there from the collections of the revenue), he was obliged to accept (in London) a lower price for his rupees than the cost to the public of purchasing silver for shipment to India and conversion there into new rupees. In other words, the rates which the Secretary of State obtained week by week from the sales of his Council drafts on India were determined wholly and solely by the current price of silver in London. There was no use in the Secretary of State asking, say, 1s. 5d. for each rupee that he was putting up for auction, if the bankers and others who usually bid for the rupees could, by purchasing silver and presenting it at the Indian mints for conversion into money, obtain an equally good rupee for 1s. $4\frac{1}{2}$d. Indeed, one-sixteenth of a penny difference in price would have been sufficient to compel the public to reject the Secretary of State's offers of rupees.

These considerations explain (1) the steadily falling prices that the Secretary of State was forced to accept for his rupees in the fifteen years preceding the closing of the Indian mints to silver —prices that reflected the continuous drop in the gold price of silver; and (2) the reason why the Secretary of State was forced to accept from the banks and other tenderers lower rates even than the public would have had to pay, had they endeavoured to finance themselves by shipping silver to India.

It is most essential that the reasons for the Secretary of State's actions in the past should be quite clearly understood, because, notwithstanding that the conditions which shaped those actions have now entirely disappeared, the Secretary of State for India still continues—without rhyme or reason —to go through the same ancient procedure of auctioning his Council drafts. Moreover, he still continues to give away his rupees—and in quantities far in excess of the home charges—at rates below those at which the banks and others could procure those coins from other sources, thus making those immediately interested a weekly present of not inconsiderable sums of money, at the expense of the Indian taxpayer.

Let us explain this point more fully. In the early nineties of the last century an International Monetary Conference sat at Brussels to consider

the possibilities of coming to some understanding for the more extended use of silver as money. It was hoped by some that if a wider employment of silver could be arranged between the chief users of the metal, that the gold value of silver would thus be raised. The Conference, largely in consequence of the lukewarmness of Great Britain, failed to arrive at any agreement. In the meantime, the Government of India had recorded their deliberate opinion that, in the event of such a result, they should at once close the Indian mints to the free coinage of silver, and make arrangements for the introduction of a gold standard. On the recommendation of Lord Herschell's Committee, the Government of India were permitted to take steps to safeguard their position. As a preliminary measure, the Indian mints were closed to the public to the free coinage of silver in June, 1893. At the same time it was generally understood that Government would accept gold coin and gold bullion at the Indian Mint at the rate of 1s. 4d. to the rupee, and that the sovereign and half-sovereign would be received at the same rate in payment of sums due to Government.

Here, then, were the new conditions referred to above. With the closing of the Indian mints to the public, there was no longer any way open to the public for obtaining supplies of Indian money in large quantities except by either shipping gold

to India and purchasing rupees with it from Government at 1s. 4d. each, or by paying the Secretary of State such price as he might demand (at or under 1s. 4d.) for Council drafts on the Indian treasuries. The business of selling rupees was, therefore, from that time a monopoly of the Secretary of State's, and he was in a position to obtain any price that he liked (up to 1s. 4d.) for such rupees as it pleased him to sell. Everybody, of course, expected him to hold for 1s. 4d. But after a few months of uncertainty, instead of announcing that 1s. 4d. was his price, and that he would accept nothing less than 1s. 4d., the Secretary of State electrified the business community by solemnly informing them that he was not holding for any minimum, but that he would consider all offers for his rupees "on their merits." This extraordinarily unbusiness-like pronouncement created the utmost consternation at the time, and effectively prevented him from obtaining the 1s. 4d. which he wanted for several years. Amazing as it may seem, the Secretary of State still continues the ridiculous procedure of giving away rupees at less than 1s. 4d. Thus, in 1910, between May 18th and August 10th, he sold by auction nearly 300 lakhs of rupees (£2,000,000) at under 1s. 4d., although there was not the slightest necessity for him to sell a single rupee. Indeed, whilst he was transferring the Govern-

ment of India's money to London by these bad sales, he already held cash balances in hand belonging to the Government of India as under :—

	£
On May 31st	13,753,189
„ June 30th	14,299,184
„ July 31st	13,202,754

The same last year. At the end of May, 1911, with a cash balance in hand of £18,222,451—enough to pay India's home charges for a year in advance—the Secretary of State was once more selling rupees at less than 1s. 4d. ! Where does the India Office conceive that it is benefiting India by transactions of this character?

The gravest blunder of all committed in connection with the passing of India from a silver to a gold monetary standard has been the failure of the India Office to open the Indian mints to the free coinage of gold. This master-stroke of inept management has led to a succession of financial monstrosities and irregularities without parallel in the whole history of British-Indian administration. A monetary system without an open mint is but a mere embryo—incompletely developed—dependent upon some other properly equipped nation for its vitality, and quite unfit to take rank amongst the currency systems of the modern world. An open mint, freely accessible to the public, is the one central, essential feature

without which neither the quantity of metallic money in circulation nor the general level of prices can be automatically adjusted in accordance with the pressure of surrounding conditions. There being much misunderstanding regarding the true functions of the modern open mint, it may perhaps be advisable to explain the theory underlying this most important State mechanism.

The general level of prices is admittedly related —though the relation is nowadays greatly obscured by the magnitude of the credit resting on a small metallic basis—to the quantity of money in active circulation. If, for example, large quantities of unmanufactured money, *i.e.*, gold, are suddenly discovered in any given locality, then money in that locality is relatively cheap—in other words, prices there are relatively high. This high level of prices attracts commodities from other parts of the world, with the result that goods flow in, and gold flows out, of the gold-producing district. As the precious metal flows into the country supplying the commodities (say, England, where, there being an open mint, gold can be easily tested, assayed, and coined into sovereigns), it tends to raise, by its relative abundance, the general level of prices in England. What is the result? Relatively high prices in England attract goods from other countries for sale in England, and England is compelled to ship some of its

newly acquired gold abroad, where, with open mints, it can, if required, be at once converted into the legal tender money of the importing country. And so on. Here, very baldly and simply stated, we have the theory of international trade, and the ultimate reason underlying the shipment of money from one country to another. Goods are shipped from countries where prices are relatively low to other countries where prices are relatively high, whilst metallic money flows from the lands of high prices to those of cheap goods. As the metallic money runs into its new reservoirs, it tends to raise price levels in the money-receiving localities, and so prepares the way for a further subsequent adjustment of price levels and of metallic monetary levels. And this adjustment and readjustment goes on, year in, year out, all over the world—not, be it carefully noted, at the instigation or by the direct assistance of the Governments of any of the countries concerned, but in response to the activities and requirements of the trading public. Government's sole function in these matters is simply to provide the necessary monetary mechanism—the State mint, where the precious metal in use as the chief monetary standard can be received, refined, and manufactured into money just when and as the public may demand.

Simultaneously with the closing of the Indian mints to the free coinage of silver, these same

mints should at once have been opened to the public for the free coinage of gold—distinctively Indian gold coins for preference. The Indian Currency Committee of 1898, composed of eminent men expert in the requirements of commerce and currency, unanimously recommended that the Indian mints should be thrown open to the unrestricted coinage of gold on terms and conditions similar to those which govern the three Australian branches of the Royal Mint. Yet the Secretary of State has failed to take action, and India still lacks the most essential feature of her monetary system, without which her currency remains on a par with those primitive devices of the Middle Ages which, opening as they did the road to every conceivable form of trickery and fraud, were condemned by economists and banished by statesmen over a century ago.

The consequences of this failure on the part of the Secretary of State in Council to open the Indian mints to the free coinage of gold have been a succession of temporary makeshifts, abnormal activities, and irregular manipulations of India's finances, without parallel in the history of any nation's currency. It has been explained above that the home charges payable by India in England amounted annually to some £15,000,000 to £16,000,000; that for the various reasons detailed, the Secretary of State for India decided

that these home charges could best be adjusted by selling the rupees accumulated in the Indian treasuries in return for payments of gold to him in London, and that this practice of weekly auctioning a certain quantity of rupees (quite sound in the days of India's silver standard), has been continued to this day, although the Indian mints are now closed to the public, and the reasons for a weekly auction have long since disappeared. This system of selling Council drafts on India, however, answered fairly well to the extent of the £15,000,000 to £16,000,000 due by India for the payment of her home charges. But what was to happen if the balance of trade in India's favour exceeded this £15,000,000 to £16,000,000? How was the remainder of the balance to be adjusted? For the first £15,000,000 to £16,000,000, the Secretary of State's sales of rupees would suffice. For the balance, the ordinary course—the course followed in the case of every other country in the world—would be for the public to ship gold to India. But without an open mint in India how could that gold be converted by the public into legal tender money in India? Although the Government of India expressed its willingness to accept sovereigns in payment of moneys due to it, and even went so far as to make the English sovereign and half-sovereign legal tender in India, it could hardly be expected that foreign gold coins

with which the bulk of the population in India were quite unfamiliar would instantly spring into popularity, or would, at first, be of much practical use in the moving of the crops. What was to be done?

The system of paying gold to the Secretary of State for India in London, and receiving rupees in Calcutta, Bombay, or Madras as bankers and others might require, was so convenient and simple to the bankers and others immediately concerned, that we cannot, perhaps, feel surprised that the interested parties should have persuaded the India Office to believe that it ought, in the interests of Indian trade, not to stop at the £15,000,000 to £16,000,000 required by it for the liquidation of India's home charges, but that it ought to launch forth into the realms of international finance, and supply the bankers and others (whose ordinary business it is to move specie and bullion from localities where they are not wanted to others where a demand exists) with whatever money they needed in India, exactly when and where the need might show itself. In other words, the Secretary of State for India ought, it was argued, in the case of India, to do some of the bankers' own business for them, at the expense of the Indian taxpayer. The man of business can easily imagine the Homeric laughter with which such a proposal would be received were it made to the High Com-

missioners for Canada or Australia in London, or to the South African Union's representative in the Empire's capital. Yet the India Office has undertaken the business with alacrity, and now, having withdrawn from India (often on worse terms than it need have accepted) the whole of the £16,000,000 or so required for the liquidation of India's home charges, the India Office is apparently prepared, at the invitation of a few Indian exchange bankers and others, to go on withdrawing from India as much of the Government of India's money as they may desire temporarily to make use of—and, what is more, to conduct these financial operations on behalf of the banks at a lower cost to the banks than the banks could finance themselves in the open market by shipping bullion or specie to India. Indeed, there now seem no limits to the India Office's financial activities. With a cash balance in London belonging to the Government of India amounting to nearly £20,000,000, the India Office shows no signs of abating its financial ingenuity. On the contrary, when, a few weeks ago (on March 19, 1912), Colonel C. E. Yate inquired in the House of Commons whether the Secretary of State would consider the advisability of ceasing the withdrawal of further sums of State money from India, Mr. Samuel Montagu, Under-Secretary of State for India, made the truly amazing reply that Lord Crewe ". . .

had every reason to believe that the cessation of the sale of his drafts on India would inflict a most damaging blow on Indian trade, and would be received with consternation by those engaged therein." In other words, if the Secretary of State left the banks to do their own business themselves (as, in truth, all banks have to do in the cases of Canada, Australia, and South Africa), instead of doing it for them at Government expense, the trade of India would suffer a most damaging blow! Needless to say, such a reply is sheer nonsense.

In connection with the India Office's undefensible withdrawals of millions of Indian State funds from India to London, there is one very important aspect of the situation which now demands a few words of explanation. As before mentioned, India ordinarily sells to the world at large far more than she buys from outside. The result is that there is ordinarily a substantial monetary balance due to her (over and above the amount of the home charges), which she not infrequently takes in cash —in gold nowadays. Like the rest of the civilised world, India is beginning to cultivate a taste for gold money, gold ornaments, and gold things generally. So each year India imports more gold from outside than before. India's own mines yield over £2,000,000 in gold annually, but in the absence of an open mint in India, all this gold

has to be shipped to England for assay. Deducting these exports, India's net imports of gold for the five years ending March 31, 1910, were close upon £11,600,000 per annum. Last year India imported £18,600,000, and there is every indication that, given good monsoon rainfalls, this figure will be exceeded in the near future.

Now, London is the chief market for gold in the world. At the same time, Great Britain carries on its world-business with a smaller reserve of gold than any other great nation in the world. It has followed that this yearly increasing demand for gold from India has become a source of considerable anxiety to certain sections of the London money market. How — it is asked in London — can this demand be checked? Every transfer by the Secretary of State for India of India's money from India to London temporarily reduces the balance of trade due to India, and so, for the time being, delays the shipment of gold to India in settlement of that balance. This is a service to some of London's bankers and traders which London much appreciates, because, if London's stock of gold is depleted more rapidly than usual, it becomes necessary for the Bank of England to raise the discount rate so as to attract money and gold to London. But any sudden raising of the London discount rate means an additional interest charge on all business

carried on by aid of borrowed capital—in other words, on most of England's vast commerce. In these circumstances it can easily be understood that there are many who urge the India Office on its irregular course, many who applaud the Secretary of State's action in transferring Indian State money from India to London as a wise action, and one that indicates his grasp and proper appreciation of the needs of the London money market. Whether he has any right to the millions of somebody else's money that he has been so transferring nobody stops to inquire.

It is here contended that the Secretary of State for India has no shadow of right of any kind or description to withdraw £30,000,000 to £35,000,000 of India's money from India to London in order temporarily to delay the shipment of an equivalent amount of gold to India. It is contended that such a policy not only stultifies itself (in that India will assuredly take the gold due to her sooner or later), but it inflicts grave injustices on India, depriving her, as it does, of capital that she sorely needs for her own development, filching a certain amount of interest, her legitimate due, and involving unnecessary taxation upon her not over-wealthy millions. These are grave charges. But the count does not end even at this point.

On March 11, 1912, in response to an inquiry

in the House of Commons regarding the exact amount held in London by the India Office at the credit of the Government of India, Mr. Montagu, Under-Secretary of State for India, replied that the actual balance standing at the credit of the Government of India in London on the evening of March 8, 1912, *exclusive of the amount held on account of the Gold Standard Reserve* (about £17,000,000), was £17,953,995 18s. 3d. What has become of this huge accumulation of cash?

Here is the answer, given in the Imperial Legislative Council, Calcutta, on March 22, 1912:—

(*a*) On December 31st last £3,715,000 had been lent out in London on no security to "approved banks."

(*b*) On the same date £10,650,000 had been lent out in London on security to "approved borrowers."

The "approved banks" who have enjoyed the advantage of having the Government of India's money lent to them at under 2½ per cent. per annum on no security were:—

1. The Union of London and Smith's Bank (Governor, Sir Felix Schuster, financial adviser to the Secretary of State, &c.).
2. The London County and Westminster Bank.
3. The National and Provincial Bank of England.

4. The London Joint Stock Bank.
5. The London City and Midland Bank.
6. Glyn, Mills, Currie & Co.
7. Barclay & Co.

Who the other "approved borrowers" (*i.e.*, other than London joint-stock bankers) are the public have not yet been informed. These lucky financiers secured nearly £11,000,000 of India's floating cash at a shade over $2\frac{1}{2}$ per cent. per annum. The Presidency Bank rate in the Bengal and Bombay Presidencies has in the meantime been standing at 7 per cent.!

Not content with lending out in London these huge sums of the Government of India's money at rates far below what could have been obtained in India, the Secretary of State for India has simultaneously, to all appearances, BORROWED £4,500,000 in London on behalf of the Government of India at a shade under 3 per cent. What for? What does it all mean?

If ever there was a case for a national inquest, it is in these strange doings of the India Office. What the national verdict will be time alone can show. The facts of the case seem inexplicable. The case for the prosecution appears to be an exceptionally strong one. Let us now hear some of the witnesses for the defence.

CHAPTER V

WITNESSES FOR THE DEFENCE—IN INDIA

THE first count in the indictment is that having closed the Indian mints to the public in June, 1893, to the free coinage of silver, thereby depriving them of their right to obtain unlimited supplies of full legal tender money on presentation at the mint of the precious metal necessary for the manufacture of that money, the India Office has not to this day remedied the position and restored India to its former monetary status by opening the Indian mints to the free coinage of gold. That the result of this omission has been, not only to preclude India from the advantages of a distinctively Indian gold currency (such as she enjoyed before Great Britain banished, in effect, her old gold mohurs and pagodas), but to weaken her general financial position, and force her to send all her own gold—over £2,000,000 per annum—to London for assay and conversion into money. That the upshot of this state of affairs is that India now lacks that automatic State mechanism without which, as before explained, neither price

nor monetary levels can automatically adjust themselves, and that her currency has in consequence to be "managed" from day to day by some official in Whitehall or Calcutta—a retrograde policy that throws India back, so far as her currency is concerned, to the period and evils of the Middle Ages.

When the Indian mints were first closed to silver, the probable effects of the change were not clearly foreseen, and though Government, on the recommendation of Lord Herschell's Committee, took the precaution of limiting the extent of any sudden rise in the gold value of the rupee by undertaking to issue rupees from the Indian mints in exchange for gold at the rate of 1s. 4d. per rupee, there was no proposal on the part of the India Office or of the Government of India to open the Indian mints to the free coinage of gold. That came later, and in this way.

In 1898 the Secretary of State for India appointed a very strong committee, of which Sir Henry Fowler (Lord Wolverhampton) was President, to report what steps should be taken to carry into effect the policy initiated in 1893 by the closing of the Indian mints to the free coinage of silver. That committee unanimously recommended—*inter alia*—as follows :—

> "We are in favour of making the British sovereign a legal tender and a current coin in

India. We also consider that, at the same time, the Indian mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian branches of the Royal Mint. The result would be that, under identical conditions, the sovereign would be coined and would circulate both at home and in India. Looking forward as we do to the effective establishment in India of a gold standard and currency based on the principles of the free inflow and outflow of gold, we recommend these measures for adoption" (Section 54).

Here we have a complete grasp of the meaning and principle of the open mint, also a clear-cut recommendation expressed in unmistakable terms.[1] The recommendation was warmly welcomed by the Government of India. At the Budget Debate in Calcutta in March, 1900, Mr. (now Sir) Clinton Dawkins announced :—

"It has been decided to constitute a branch of the Royal Mint for the coinage of gold. The terms of the proclamation to be issued under the Imperial Coinage Act have been settled, and we are now merely awaiting until the Royal Mint has satisfied itself as regards the Mint premises and appliances at Bombay. . . . The gold from the Mysore mines is, indeed, already reaching us in anticipation of coinage, and we count upon receiving an annual increment to our stock of gold of from one and a half to two millions from this source."

[1] The Committee who made this wise recommendation consisted of Sir Henry Fowler (President), Lord Balfour of Burleigh, Sir John Muir, Sir Francis Mowatt, Sir David Barbour, Sir Charles Crosthwaite, Sir Alfred Dent, Sir William Holland, Mr. F. C. le Marchant, Mr. E. A. Hambro, and Mr. Robert Campbell, of the National Bank of India.

Alas! the Government of India were counting their chickens before they were hatched. The Indian mints have never been opened to the free coinage of gold to this day. Nor was any official explanation vouchsafed or any reference even made to this extraordinary breakdown in the Government of India's intentions for over ten years. Within the last twelve months, however, under the stimulus of repeated criticism, two official witnesses have at length come forward. Their names and evidence are as under:—

H. F. HOWARD, I.C.S., Collector of Customs, Calcutta. Mr. Howard, in his "India and the Gold Standard," published in Calcutta last year, writes:—

> "Owing to various legal and technical difficulties, this proposal [to open the Indian mints to the free coinage of gold] was temporarily dropped in 1902. By this time the imports of gold were too great to be absorbed, and the defect [of the absence of an open mint] had for the time, at any rate, become of a somewhat sentimental nature, as the actual operations of the coinage of the sovereign, the standard coin, are conducted in England and Australia without expense to India. The decision arrived at [What decision? This is the first the public have heard of any "decision"] is not necessarily final, and the Finance Member of the Viceroy's Council recently announced, in March, 1911, that the question would receive further examination" (Chapter I., p. 10).

Sir Guy Fleetwood Wilson, Finance Member of the Viceroy's Council. Sir Guy Fleetwood Wilson, in replying in Calcutta, on March 22, 1912, to Sir Vithaldass Thackersey's motion that the Indian mints be opened to the free coinage of gold, said :—

> "The proposal [of the Fowler Committee] "that the Indian mints should be thrown open to the unrestricted coinage of gold was cordially accepted by the Government of India, and steps were taken to give effect to it. Our preparations, however, came to an end somewhat suddenly in 1902. There had been much discussion on technical details, and while time was passing the agent for the Kolar Goldmines had concluded arrangements for the disposal of the gold in England. The Government of the day were doubtful whether it was prudent to pursue the scheme in the absence of any steady supply of local gold, and the Treasury at home were disposed to advise against it in the belief that India would obtain all the gold it required through the ordinary channels of import. The question was thus laid aside in 1902. No definite reasons were given at the time, so far as I can ascertain, but the reasons were those which have now been briefly described."

Not a word, be it noted, to indicate that either of these witnesses appreciate the vital significance of an open mint. If we can imagine a conundrum on the well-known old pattern, When is a monetary system not a monetary system? the answer would certainly be, When it lacks an open mint. And yet the India Office and the Government of

India have apparently been content to allow the present out-of-date, chaotic system to continue on the pleas that—

(1) Not much Indian gold might be brought to the Indian Mint, even if it were opened; and

(2) India can import English (or, we may add, French or German) gold coins, manufactured at somebody else's expense, if she wants gold coins.

Why, then, bother to give India a mint of her own to manufacture Indian gold money? Needless to point out, identically the same arguments would apply to an abolition of the present English Mint. England herself could easily import any gold that she wanted from abroad, whilst her own microscopic production—about £3,000 per annum—could be sent across the water to Germany to be turned into money.

If this is all that can be said in defence of the Secretary of State's attitude with regard to India's mints, it is clear that Great Britain's record in this matter leaves very much to be desired. For the moment, however, we must defer further comment, because we have it on the authority of Sir Guy Fleetwood Wilson that the whole subject is at this moment engaging the consideration of the Marquis of Crewe and his Council. We also have the further satisfaction of knowing that if the Secretary

of State's decision be in favour of the immediate opening of the Indian mints to the free coinage of gold, nobody will be more gratified than Sir Guy Fleetwood Wilson himself.[1]

The next count in the indictment is that the India Office have unnecessarily transferred portions of the Indian Paper Currency and Gold Standard Reserves from India to London, and there so invested them as, in the case of a great political convulsion, seriously to jeopardise their utility so far as India is concerned. Witnesses for the defence, in India: Sir E. N. Baker, late Financial Member of the Viceroy's Council, and Sir Guy Fleetwood Wilson, present Finance Member of the Government of India.

A word of explanation is necessary regarding the nature and functions of the Indian Paper Currency. At one time the Presidency Banks in India were authorised to issue notes payable on demand, but this power was withdrawn in 1862, when provision was made for the issue of a Paper Currency through a Government department by means of notes of the Government of India payable to bearer on demand. There is no limit to the amount of the issues, but it is provided by law that the whole amount of currency notes at any time in circulation shall be supported by a reserve consisting of gold, silver, and securities of the

[1] *Vide* Appendix E.

Government of India or of the United Kingdom. The total quantity of Paper Currency ordinarily circulating fluctuates somewhere in the neighbourhood of Rs.50,00,00,000. Against this, the miximum limit of securities that may be held has been fixed at Rs.14,00,00,000, the balance being held by Government in specie or bullion.

The Gold Standard Reserve partakes in some degree of the nature of the Paper Currency Reserve, in that whereas this latter has been maintained to ensure the payment in specie when required of all Government *paper* money, the former has been created with the object of assuring as far as possible the payment in gold of all Government *silver* money at the value which that silver money now possesses in the eyes of the outside world—namely, 1s. 4d. for each rupee, or thereabouts. Indian Paper Currency is ordinarily represented for encashment at Government treasuries in India, but those outside India who have to receive money from India now reckon on receiving payment in gold at the rate, approximately, of 1s. 4d. for each rupee due. The silver in the rupee is only worth, as metal, about 9d., and it is to raise the rupee permanently to the value of one-fifteenth of a sovereign that a great reserve has been accumulated, by aid of which, should the balance of trade turn against India, all external debts due by India could nevertheless be

discharged at 1s. 4d. to the rupee (by aid of the reserve) until such time as the tide once more turned in India's favour. The total sum now held in the Gold Standard Reserve amounts to a little over £19,000,000. Most of this was originally obtained from the profits of selling to the public at 1s. 4d. each new rupees that have cost Government only 9d. or 10d. to manufacture.

For many years nobody dreamt of holding the Paper Currency Reserve otherwise than in India, and mainly in precious metal. So, too, it was generally understood that the profits on the coinage of new rupees would also be held in India, and in gold. The creation in India of a currency monstrosity in the form of a monetary system without an open mint, however, led to a succession of other monstrosities and absurdities, chief amongst which were :—

1. An entirely novel and self-imposed obligation on the part of Government to supply money-dealers and others with whatever money they demanded, when, and as, they demanded it.
2. Consequently, a partial abandonment of Government's own policy of introducing a gold standard and currency into India; because if money-dealers and others opposed to that policy—and there were many—insisted on Government supplying

token money (rupees) instead of full value money (gold coins), Government meekly did so.

3. Consequently, the application of State cash reserves and floating cash balances to private financial and commercial ends entirely different from those which those reserves had been specially designed to serve. And

4. Consequently, the complete subordination of the Government of India's ordinary monetary business to the financial needs of professional money-dealers in and out of India, some of whom have practically no connection with India at all.

The first evidence for the defence is extracted from Sir E. N. Baker's Budget Address in Calcutta, in March, 1906. Explaining the exceptionally heavy drawing of the Secretary of State on the Indian treasuries (many millions in excess of his own requirements), the Finance Member stated that these drawings had been ". . . primarily due to the great trade demand for remittances to finance the export trade of India." Sir Edward Baker further added :—

> " . . . Since the closing of the mints and the establishment of the gold standard the only means of obtaining currency that was open to trade, apart from the purchase of Council drafts and transfers, was to bring out gold to India. When,

as is now the case, a sufficient stock of gold has been accumulated in the Currency Reserve to make the standard effective, and so long as gold is not to any large extent in active circulation, this method is wasteful, for it involves the eventual reshipment of the imports of that metal to Europe for the purchase of silver for coinage. To avoid this result, the policy of Government has been to sell Council drafts freely so as to supply the trade demand to the fullest extent up to the limit of our capacity to meet them. A recent development of this policy has taken the form of selling telegraphic transfers against shipments of gold from Australia, which are thus diverted from India to London."

By the Indian Paper Currency Act of 1905 two very notable changes were introduced in order to lend support to the strange financial dealings in which the Government of India had by that time found themselves involved ; Government were empowered to hold a portion of the metallic support to the Indian Paper Currency in England, also to invest a portion of that same reserve in sterling securities in England. Sir Edward Baker's explanation of the "practical advantages" of the new move was as follows :—

1. When held in London, the gold is one stage nearer the point at which it becomes practically effective for its primary purpose of securing the encashment of currency notes. So long as gold is not in active circulation in India, what

the presenter of currency notes requires is not sovereigns but rupees, and the silver bullion which must be purchased for the coinage of these can ordinarily only be procured in Europe and not in this country.

2. It enables the Secretary of State to effect his purchases of silver in the promptest and most convenient manner as occasion may require, and without the publicity attendant on the shipment of gold from India. It is open to him either to treat the silver so purchased from the first as a portion of the reserve, or, if preferred, to pay for it in the first instance from his Treasury balances, and then subsequently to recoup these from the currency chest, the latter being replenished by Council sales or direct remittances from India.

3. It also affords a method which might in certain circumstances be very useful of speedily replenishing the Secretary of State's Treasury balances. If at any time the demand for Councils should be insufficient to supply his current requirements, it would be possible for him to transfer a part of the gold in his currency chest to his Treasury account,

a corresponding transfer of either rupees or gold being simultaneously made in India from Treasury to currency.

4. Conversely, it affords a means of giving relief to our Treasury balances when the trade demand for Council drafts is too large for them to meet. In such a case it would be possible for the Secretary of State to pay the sale-proceeds into his currency chest, thereby setting free an equivalent amount in rupees in India, which would be available for meeting the drafts.
5. Lastly, it facilitates the prompt investment of the receipt of the Gold Reserve Fund. When profits on coinage accrue in India the Secretary of State can at any moment draw the equivalent amount from his currency chest and invest it, corresponding transfer being made in this country from the balance of the Gold Reserve Fund to Currency.

"The whole arrangement is the logical and legitimate corollary of the system which has long been in operation in India by which the utmost freedom of transfer is permitted between the Currency Reserve and Treasury balances, subject always to the essential condition that the aggregate amount of coin and bullion held in the various currency chests throughout India is

invariably maintained at the figure prescribed by law" (*vide* the Financial Member's Budget Address in Calcutta of March, 1906).

The whole arrangement is the logical and inevitable corollary, it may also be added, of starting on the wrong path, continuing on the wrong path, and doggedly determining to follow the wrong path to the bitter end, no matter what pitfalls and strange morasses are encountered *en route*.

With regard to the Gold Standard Reserve, the Indian Currency Committee of 1898 recommended that this reserve should be kept "IN GOLD," "entirely apart from the Paper Currency Reserve and the ordinary Treasury balances." This recommendation has been wholly ignored. The Gold Standard Reserve is now held as follows :—

		£
In England, about	... ...	17,000,000
,, India ,,	... ...	2,000,000

Of the £17,000,000 in England, about £16,000,000 has been invested in various British and Colonial Stocks (including £4,500,000 lent to the British Treasury to bolster up Mr. Lloyd George's finances).

The great objection to holding so large a portion of this reserve in London, invested in sterling securities, has been stated by Sir Ernest Cable in

Calcutta, in March, 1905, in the following words :—

"The point I wish to drive home is that at times of international complication and crisis the possession by India of a stock of gold bullion would be a great bulwark of safety. It would obviate the possible necessity of our being forced to sell securities just at that particular time when those securities might be very greatly depreciated in value. Gold, on the other hand, always appreciates in value at such times. We know that the gold reserve held by the Bank of England is generally recognised to be lower than it ought to be ; and there is a feeling that the British Empire is attempting too much all over the world on an insufficient stock of gold. Moreover, Great Britain has now entered into an alliance with another Power, and thus runs a greater risk of becoming involved in international complications. There is consequently a greater chance of the occurrence of periods when the realisation of Consols at profitable rates will be difficult. The present is not, I know, a very opportune time to quote the example of Russia in financial matters. But if I may judge from a somewhat remarkable article in one of the monthly reviews, it would certainly appear that Russia's financial system would long since have tumbled down but for the unbounded faith of continental bankers and financiers in her enormous gold cash reserve. The political and financial effect of that great aggregation of gold has been, we are told, miraculous. Far be it from me to suggest that India should ever attempt to go the length to which Russia has gone in hoarding gold. But the lesson of Russia teaches us that the advantages of a large bullion holding, legitimately accumulated, are incalculable. I agree entirely with the Honourable

> Member that the question is not one of urgency. But it is eminently worthy of consideration. Let me put the following concrete proposal to the Honourable Member, and invite his criticism on it—namely, that one-half of any surplus over ten millions in the Special Gold Reserve should be held in approved securities, perhaps other than British, and the other half in gold bullion."

The objections were again restated at length by Sir Vithaldass Thackersey in Calcutta at a meeting of the Imperial Legislative Council on March 22, 1912 (*vide* Appendix F). The gist of Sir Guy Fleetwood Wilson's reply was as follows :—

> "The Secretary of State has deliberately accepted full responsibility for making the reserve available when required for the purpose for which it was created."

This is as far as it is possible to get in India—the Secretary of State is responsible ; no doubt it is a very grave responsibility ; still, he has shouldered the load, so now you must look to him (*vide* Appendix F).

The third count in our indictment is that the India Office have needlessly and wrongly entered the spheres of finance and commerce, and have—to a degree unheard of in any country in the world—placed the cash reserves and floating balances of the Government of India in the hands of private concerns in London to the direct loss of the peoples of India.

In connection with this count, it is practically impossible to find any witnesses for the defence, either in or out of India. In the course of the debate in the Viceroy's Council at Calcutta on March 22, 1912, Sir Guy Fleetwood Wilson admitted that ". . . in ordinary circumstances, high Treasury balances were wrong and wasteful . . ."; but whether Sir Guy Fleetwood Wilson considered the £17,000,000 cash balance in the hands of the India Office "high," or whether the circumstances were "ordinary" or extraordinary, the Finance Member gently declined to discuss.

So much, then, for the witnesses for the defence in India. It is doubtful if it will be considered that they have raised any sort of substantial defence at all. This point we shall refer to later. Let us now hear what the witnesses for the defence whose headquarters are in London or elsewhere in the United Kingdom have to say.

CHAPTER VI

WITNESSES FOR THE DEFENCE—IN ENGLAND

WITH some knowledge of the dilemma with which the London money market now finds itself face to face, it is not difficult to guess the line of defence which those witnesses whose headquarters are in the United Kingdom have selected. A writer in the *Financial Times*, who gravely refers to the recent manipulations of India's finances as " . . . a whole series of brilliant currency experiments . . ." has just (March, 1912) said of India's demand for gold :—

> " . . . The City should see to it that a situation so portentous and menacing is investigated by a competent Commission, before worse comes of it. The latest experiment of the Government of India in dealing with its currency, and indirectly with ours, threatens this nation, in the event of a European war, with an early suspension of specie payments. And not only are we losing, and losing for ever, to the hoards of India, those vast sums of gold which are so essential both for our banking security and also to protect our discount rate, but the action of the Government of India in drying up the stream

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> of imported silver (by its present import duty on the white metal) is weakening *pro tanto* all the exchanges with China. . . ."

Here we have exactly the same line of argument as that adopted by the London financial organ, the *Statist*, to whose alarmist special articles of April, 1911, a brief reference is made in Chapter II. A reply to the *Statist's* panic-stricken pleadings will be found in Appendix D, so it is not necessary here to say more than that these efforts to rouse the India Office to action, though short-sighted and unsound, nevertheless succeeded beyond all hope. The Secretary of State's greatly increased drawings on the Indian treasuries were heartily welcomed in London, where they were frankly recognised as relief to the money market, which feared heavy withdrawals of gold for India.

A witness of a very different type from the editor of the *Statist* is Professor J. M. Keynes, of King's College, Cambridge. Mr. Keynes served in the India Office from 1906 to 1908, so it is perhaps not surprising if he has still a kindly feeling for the officials of his former headquarters. Writing in the *Economic Journal* of September, 1910, Mr. Keynes says :—

> "With regard to the controversial question of the proper magnitude of the Gold Standard Reserve, Mr. Webb is right, in my opinion, in holding that it ought to be considerably

increased, and that the Indian Government, adopting throughout too optimistic a policy, have been too ready to divert the income of the reserve to other purposes. But when he maintains that the reserve should be held entirely in gold and mainly in India, he, together with many other critics whom the India Office have wisely withstood, is misapprehending the true character of the Indian system, as well as the general drift of currency reform in many parts of the world. In 1893 it was believed, no doubt, in many quarters that the closing of the mints was a first step towards the establishment in India of a full gold standard. In 1898 the Government of India still believed that this should be their ultimate goal. But since that time fuller experience in India and elsewhere has led to the explicit recognition of a new system of currency known as the gold exchange standard, in which notes or token silver coins, which are permanently established as the predominant medium of exchange, are kept near a fixed par in relation to gold by Government control of the foreign exchanges. A much larger number of the countries of the world than is ordinarily recognised are now using this method in practice, and to a growing extent. They hold their gold reserve for the purposes of foreign trade only, and they economise the use of metal by holding bills on the chief commercial centres abroad with which they are in close relation. The method is sufficiently safe and is, in the matter of economy, vastly superior to a gold currency. Its widespread adoption in greater or less degree since 1900 marks a definite stage forward in monetary evolution, and is likely to have far-reaching effects in the future. The critics of the existing policy in the case of the Indian Gold Standard Reserve are misled by its name into supposing that one of its proper objects is the accumulation of gold in India for

> the purpose of eventually establishing a full gold standard there. But when the real nature of the gold exchange standard is realised, it is clear that the reserve should be kept where it will be wanted for supporting exchange—namely, in London—and that, as long as it is kept in a fairly liquid form there is great advantage and no loss in earning interest. It would be as reasonable to keep the gold reserve in Calcutta as to keep the reserve of coined rupees in London."

Not a word about the war risk, be it noted, or any explanation of how the Secretary of State for India could realise £16,000,000 worth of securities at a time when specie payments have been suspended in England (as they undoubtedly would be were Great Britain to be suddenly involved in a conflict with a first-class Power). Let this pass, however. The strange spectacle to which the reader's attention is now invited is that of the learned Cambridge Professor subtly defending the results of India Office financial methods as ". . . a definite stage forward in monetary evolution. . . ." It is as though a poor, tropical kinsman, anxious to comport himself in the same garments as his wealthier Western neighbours, has secured the loan of an old coat. True, the coat is wretchedly small and threadbare, the seams gape, and large holes are visible in more places than one. Still, the coat somewhat resembles the good habiliment worn by well-to-do

Westerners, and our poor friend is consequently quite proud of it. Other indifferently clothed inhabitants of the tropics, struck by the (to them) smart appearance of their neighbour, also borrow old coats similarly tattered and torn, and, thus robed, they stalk to and fro, and admire each other's appearances.

Enter a Professor. To the unkind critic who points out the obvious defects of these old coats the Professor gravely replies :—

> "These coats mark a definite stage forward in sartorial evolution. Those rents in the seams permit an easy access from outside to the several inside pockets ; the holes in the back serve excellently for purposes of ventilation" ;

and so on.

> "Moreover, a much larger number of people in the tropics than is ordinarily recognised are now wearing these coats, and to a growing extent. They put on the coats for the purpose of looking well before foreigners, and they economise by sending the coats back to those from whom they borrowed them, when there is nobody about. This method is sufficiently good for *them*, and is, in the matter of economy, vastly superior to possessing a full-size, complete, up-to-date, modern, well-made coat of one's own."

So, Professor J. M. Keynes. There are certain relatively small and poor nations who, unable to afford a complete gold currency, do the best they can by borrowing or accumulating a little gold.

They would all like to have first-class gold currencies exactly like England, but they cannot—yet—afford such equipments. They go as far as they can. Moreover, the number of States endeavouring to keep up appearances in this fashion is greater than is ordinarily recognised. But to describe these makeshifts as a "... definite stage forward in monetary evolution" is to misread facts. India can now afford a decent currency garment exactly the same as that which England wears. And she has made up her mind to have it. To imagine that India will swallow Professor Keynes' specious suggestions is not to give Indians the credit of being able to distinguish between good, bad, and indifferent. India knows a gold currency when she sees it, also the advantages of maintaining such a currency, and though Professor Keynes and others may endeavour to persuade Indians that it would be cheaper and better for them to be satisfied with the shadow rather than the substance, and to depend upon somebody in Lombard Street to lend them a coat when they feel a little cold, rather than have a good coat of their own ready at hand in their own household, India is not in the least likely to accept these ingenuous proposals.

Our next witnesses for the defence are Messrs. Samuel Montagu & Co., the well-known bankers and bullion-dealers of Old Broad Street. Why

these gentlemen should have set themselves up as unofficial apologists for the India Office's management of Indian currency affairs it is difficult to understand. Their qualifications for undertaking the part are extremely slender, if we may judge from the statements that have been made in recent issues of their *Gold and Silver Weekly Market Circular*. In India these statements have been described by the *Times of India* as "fallacies" and "currency inexactitudes." The accuracy of these descriptions can be judged by a careful examination of some of Messrs. Montagu's statements themselves.

Omitting such grotesque errors as the assertions that (1) *the bi-metallic character of India's currency reserves* maintains the ratio of fifteen rupees to the sovereign, and (2) it is an advantage to India to have a token coinage, such as silver rupees, capable of rapid expansion *at the least possible expense*, let us take Messrs. Samuel Montagu's "Annual Bullion Letter" of January, 1912, dealing with the events of 1911. This "Letter" contains an "Appendix I.," dealing specially with the Indian currency. To the writer of this Appendix must be awarded the palm for introducing more errors of fact into the compass of two pages of print than any other banker, bullion-dealer, monetary expert, or currency-writer who has yet ventured to deal with the Indian currency

problem. That this is not an exaggeration can be seen from the following extracts from Messrs. Montagu's Letter (printed in italic type) and the comments that follow each quotation :—

> "*The question of a Gold Standard for India has been much before the public view during the year. Its instant adoption is urged by a strong body of native opinion, but the pressure arises mainly from sentimental rather than practical reasons. . . .*"

India has enjoyed a gold standard for the last twelve years or more, and there has been no pressure therefore, sentimental or otherwise, for its "instant adoption." There has been a demand for an open mint—for a distinctively Indian gold currency, and for the retention of India's cash reserves and balances in India. These are quite different problems, however, as Messrs. Samuel Montagu & Co. ought well to know.

> ". . . *It must be remembered that silver rupees have been from ancient times the only coins familiar to the varied and populous nations of India. . . .*"

Unfortunately for Messrs. Samuel Montagu, gold mohurs and gold pagodas were current in India for some fourteen or fifteen centuries before our advent there. Indeed, it was we who demonetised India's gold mohur by ordinance on December 22, 1852. In the early

part of last century gold pagodas were ". . . the principal money in circulation and money of account. . . ." These gold pagodas were also current in Ceylon, Mauritius, and even at the Cape of Good Hope. In 1800 the pagoda was declared legal tender in New South Wales. With regard to the gold mohur, the East India Company endeavoured in 1758 to make the coin the monetary standard of India, but with indifferent success. The gold mohurs were ordered to be minted in 1774 in Bengal; whilst Ordinance XLV. of Bengal, in 1803, expressly declared the gold mohur to be ". . . the money of trade." . . . And so on, up to 1852, when it began to be feared that gold was depreciating, and the right to pay gold coins at the Government Treasuries was withdrawn from January 1, 1853. It will be seen from the above facts that Messrs. Samuel Montagu's history is somewhat defective.

> "*The Indian authorities, therefore, have held before them the practical object of holding exchange steady with the West rather than the establishment of a theoretical single standard. . . .*"

We doubt it! The "Indian authorities" have throughout endeavoured to carry into effect the Indian Currency Committee's recommendations by giving India (1) an open mint for gold, plus (2) a gold currency. If these *desiderata* have not

yet been attained, it has not been the fault of the "Indian authorities." With a Secretary of State checking the flow of gold to India by withdrawing from India twice his legitimate requirements, the work of establishing a gold currency (which is what Messrs. Montagu presumably mean by a theoretical "single standard") has of necessity been considerably delayed.

> "... *The fact remains that gold is at the present time available. . . . No demand on the Treasury is made for it now, for, as in all other countries, when once it is known that gold is available, notes are preferred as being the more convenient.*"

Wrong again! The amount of gold paid out of the Government Treasuries (in excess of that paid in), in the Provinces named below during the year 1910-11, and in response to Indian demands, is officially reported to have been as under:—

	£
Punjaub and N.-W. Frontier ...	2,178,000
Madras	1,437,000
Bombay (including Sind)	1,192,000
United Provinces	938,000
Bengal	754,000
Burma	578,000
Central Provinces	75,000
Eastern Bengal and Assam ...	35,000

In all, £7,187,000 *in gold* gone from the Treasuries into use in various parts of India. This

is what Messrs. Samuel Montagu describe as "no demand"!

> ". . . *The methods adopted by the Indian Government, if persisted in long enough to accumulate an adequate reserve,* obviate the necessity of a large loan to form a gold reserve."

No doubt. But no responsible authority, in or out of India, has ever dreamt of suggesting ". . . a large loan to form a gold reserve . . ." or, in truth, any loan at all. What the India Office has done has been secretly to withdraw from the current revenues sufficient money to rebuild up that portion of the Gold Standard Reserve which was demolished in the crisis of 1907. Why India should be taxed to cover up the *faux pas* of the India Office in bygone years it is difficult to say. But we can so far concur with Messrs. Montagu as to admit that by taxing India unduly, and afterwards secretly applying the proceeds of such taxation to ends of which the public know little or nothing, it would be possible for the India Office to achieve almost any result!

> "*Were a gold standard established to-morrow it would not put a pice into the waistcloth of the ryot, whose interests should weigh more with the rulers of India than those of the prosperous bunnia or native banker.*"

Messrs. Montagu's solicitude for the poor Indian ryot, and indifference to the welfare of the native

banking classes, is truly touching. As it happens, India has already enjoyed a gold standard for many years, and the ryot has been increasing in prosperity the whole time! So also have the bankers—both in India and the United Kingdom.

"If it seemed desirable to assist in the utilisation of gold and to retard the demand for silver . . ." write Messrs. Montagu, this, that, and the other might be done. What a volume of evidence is contained in that one word "IF"! Many people have believed that the policy of encouraging the use of gold in India is one that was initiated with the closing of the Indian mints in 1893, further developed after the acceptance of the Indian Currency Committee's Report of 1899, and still remains the declared official policy of the Secretary of State for India, the Government of India, and the public generally of that great Dependency. But to Messrs. Samuel Montagu & Co. the desirability of initiating this policy would appear to be an entirely novel and debatable point, the *pros* and *cons* of which are yet open to discussion. Yet another of Messrs. Montagu's many misunderstandings!

Here we may leave these witnesses. A leading organ of the Press in India has dealt frankly with Messrs. Samuel Montagu & Co.'s pretensions to knowledge in regard to Indian currency and financial problems. A few extracts from the

Times of India's scathing comments will be found in Appendix G.

From Messrs. Samuel Montagu & Co. we now turn to our last witness, the Hon. E. Samuel Montagu, M.P., Parliamentary Under-Secretary to the Secretary of State for India. He it was who described the Viceroy of India as the "agent" of the Secretary of State, thereby bringing down on his head a storm of protest from the Indian and English Press, and a severe rebuke from Sir Valentine Chirol, who, in his "Indian Unrest," convicted the new Under-Secretary of carelessness in his quotations.

If Mr. Montagu was careless in his quotation from the Act defining the Viceroy of India's powers, what are we to think of the Explanatory Memorandum of the East India Accounts and Estimates 1911-12, issued for the information of Parliament, over Mr. Montagu's signature in July last, wherein it is stated (on page 9) :—

"GOLD STANDARD RESERVE.

"In accordance with a recommendation made by the Indian Currency Committee of 1898-9, it was decided that, with effect from April 1, 1900 :—

"1. The net profit on the coinage of new rupees should not be treated as revenue, but should be paid to a special reserve (now called the Gold Standard Reserve).

"2. *The reserve should be held mainly in sterling securities*, the interest being added to the reserve as it accrued."

NO SUCH RECOMMENDATION AS THIS LATTER WAS EVER MADE BY THE INDIAN CURRENCY COMMITTEE. On the contrary, the Indian Currency Committee recommended that the profit on the coinage of rupees " . . . should be kept IN GOLD, as a special reserve, entirely apart from the Paper Currency Reserve and the ordinary Treasury balances. . . ."

Here we find that not only has the India Office acted in direct variance to the recommendation of the Expert Committee specially appointed by the Secretary of State to advise him, but *his Under-Secretary issues an official Explanatory Memorandum which, by directly misrepresenting the facts of the case, makes it appear that the India Office has acted in accordance with authority, instead of in direct defiance of authority.*

Surely such "carelessness" as this demands something more than a mere official correction and expression of apology—neither of which, by the way, have been forthcoming up to the present.

CHAPTER VII

THE SUMMING UP

" . . . The exclusion of gold from our currency cannot be justified, and must be regarded simply as barbarous, irrational, and unnatural. . . ." (Extract from an address to H.E. the Viceroy of the Bombay Chamber of Commerce, February, 1864.)

OUR summing up will be very brief. The Finance Committee of the India Office stand charged with :—

1. Misapplying the cash balances of the Government of India, the sums involved amounting to over £10,000,000.
2. Mishandling large portions of India's Gold Standard Reserve and Paper Currency Reserve, the sums involved amounting to at least £15,000,000.
3. Depriving India of its ancient and inalienable right to obtain unlimited supplies of legal tender money on presentation at the mints in India of the metal necessary for the manufacture of that money, a right recognised and exercised by every civilised nation in the world.

With regard to the failure of the India Office to reopen the Indian mints to the free coinage of gold, the witnesses for the defence, official and unofficial, can give no satisfactory explanation at all. Sir Guy Fleetwood's exposition of what occurred, " . . . that the Treasury at home were disposed to advise against the measure . . ." because India could get all the gold it wanted elsewhere, is lame and incomplete. Such an explanation is no ground for cutting out of India's monetary system its chief and most essential mechanism. Great Britain, which produces only £3,000 worth of gold every year, has an open mint: India, which produces over £2,200,000 worth of the precious metal annually, has no open mint, with the result that, as mentioned by Mr. Robert Campbell, Chairman of the National Bank of India, at the Annual Meeting of Shareholders in London, on March 19, 1912, the Indian mines have to send home their gold to London "for convenience of assay and refining." That convenience ought to be provided in Bombay. Further, as India's monetary system is at present not a system at all, but merely an officially "managed" makeshift, of a type that has been condemned and rejected by Great Britain itself a century ago, no excuse exists for further continuing the present unsatisfactory state of affairs. The Indian mints should at once be restored to the

status that they enjoyed up to 1893, and reopened to the unrestricted coinage of legal tender money—gold money this time.

With regard to the misapplication of India's Cash Reserves (Gold Standard and Paper Currency), all the witnesses for the defence take exactly the same line—namely, that when and if the balance of trade should turn against India, then those who desire to send money out of India will assuredly want to remit that money to London. *Ergo*, London is the place to keep the Reserve. And further, as it would be wasteful to hold £17,000,000 in actual metal in the Gold Standard Reserve, the best thing to do is to invest it in good securities and so earn interest. The securities can always be sold when money is required to meet India's drafts on London in years of rain failure and bad trade in India.

Sir Ernest Cable has revealed the defect in this line of argument (*vide* Chapter V.) :—

> "I wish to drive home the point that at times of international complication and crisis the possession by India of a stock of gold bullion would be a great bulwark of safety. It would obviate the possible necessity of our being forced to sell securities just at that particular time when those securities might be very greatly depreciated in value. . . ."

Quite so. What the India Office experts and certain pundits, like Professor Keynes, overlook is,

that there are TWO possible dangers against which it is necessary to protect India's huge silver token currency, viz. :—

1. The economic danger.
2. The political danger.

Against the economic danger of a failure of the rains in India and a reversal of the ordinary current of Indian trade, with its probability of drafts on the India Office to satisfy those of the public who desire to remit money from India to London, the retention in London of a portion of the Gold Standard Reserve (and the investment of that portion in first-class securities) is, no doubt, an adequate protection. Who questions it? Very few people in India. But why, oh, witnesses for the defence, why always harp on this one string! What about the other danger—the Political Danger?

Though every individual hopes that he, personally, may be an exception to the rule, the fact remains that

> "The best-laid schemes o' mice and men
> Gang aft a-gley."

Those who own, travel, insure, and are interested in the leviathans which weekly race backwards and forwards between America and Europe, in all weathers and through all dangers, have often congratulated themselves on the perfection and safety

with which the voyage is nowadays accomplished. Then, suddenly, down goes some *Titanic*, baffling foresight and appalling the imagination, and the world shudders at the suddenness and magnitude of the disaster.

So, too, in the realms of international politics. Whilst certain of the stay-at-homes, city-dwellers, peace-at-any-price devotees, and bread-and-butter politicians of the United Kingdom solemnly lead the Empire at large to believe that a great European conflict, involving the peoples of Britain in a struggle for life, is practically outside the realms of the possible, suddenly an international crisis develops—like some huge iceberg looming through the mist—and before we know where we are battleships move to and fro, a run on the bank occurs, and the whole country realises that we are on the verge of WAR. If the crash be averted, we have to thank our lucky stars more than our own clear-headedness and exceptional foresight. That the danger actually existed, notwithstanding all the peace talk, everybody, for the moment, realises.

And the danger is *always* with us. Let there be no mistake in this connection. And because the danger *is* always there, we are spending annually more and more on the machinery of our defence.

At this point let us put to ourselves the

question, What would happen to England's Gold Reserve (of between £30,000,000 and £40,000,000 only), in the event of an outbreak of war with a great continental Power? It is practically certain that cash payments would have to be suspended in England. There is not enough metallic money in the country to enable the population as a whole to keep on an average £5 a head in their houses for emergencies. Quite recently at a discussion of the late Sir Robert Giffen's important paper at the Royal United Service Institution in March, 1908, several speakers expressed their conviction that a suspension of payments would be inevitable *on the outbreak* of a first-class war. Sir Felix Schuster said that England would certainly prohibit the shipment of gold to the enemy. (*Vide* the Preface to Professor Andreades' "History of the Bank of England.") This would in itself involve a partial suspension.

What would become of India's Gold Standard Reserve in such an emergency? At a time like this everybody in India would be called upon to strengthen his principals at headquarters by remitting every sovereign of spare cash available. A sudden demand upon the India Office to pay out £10,000,000 would be quite possible. But where would the India Office obtain buyers for its securities? Whence could the cash be obtained? And if the India Office could not instantly meet

the position, would not the needs of those who were most pressed compel them to accept 1s. $3\frac{1}{2}$d. or 1s. 3d. for the rupees they had to sell? Somebody, no doubt, would sell his silver coins at 1s. 2d. Indeed, the probability is that the first difficulty in the course of the war would send the rupee down with a crash to 9d. What about the much-lauded London-Indian Gold Reserve *then?* Where, with such a possibility before us, is the good of holding India's reserve in securities in London? Such a reserve might conceivably fail at the very moment of crisis when its strength was most sorely needed to save India from financial ruin.

It seems beyond all question that in transferring practically the whole of India's Gold Standard Reserve to London and there investing it in securities, the Secretary of State for India is deliberately exposing India to a risk against which it is his first duty to protect her.

With regard to the misapplication of the cash balances of the Government of India, no defence worthy of the name has been attempted. It is doubtful if any defence that would "hold water" is possible. No official anywhere in this world has ever held such a cash balance as £18,000,000, and the Secretary of State for India, in accumulating a colossal balance of this character (for most of which he has no legitimate need), has exposed

himself to charges of mismanagement and injustice to India which he will find it extremely difficult to rebut.

The following extract from the remarks of Sir James Begbie, the brain of the Bank of Bombay, made on February 17, 1912, at a meeting in Bombay, sheds some light on one of the consequences of unnecessarily high taxation and swollen cash balances :—

> " . . . There is one aspect of the connection between the Presidency banks and the public to which I think it may not be inappropriate for me to refer. As you know there is a vast amount of banking business arranged all over India on the basis of bank rate—it may be at that rate or at something over or something under it, but the basis is bank rate. You also know that as regularly as one season succeeds another bank rate rises from its minimum in the monsoon months to its maximum in the winter and spring months, and that the maximum may be anything from 7 to 9 per cent., 9 per cent. being the highest point for a good many years past. It is inevitable under conditions in India that this regular waxing and waning of bank rate should occur, but is it inevitable that the movement should be so extreme, and especially that the rate should be so constantly forced to such high levels? I think not. The greatest factor in forcing up the rate is the great volume of money that is taken off the market by Government and locked away in the Treasury vaults. That money is realised in bulk only through payments for Council bills—that is, after the public have either voluntarily sold their

> produce for export *or been obliged to part with it under the pressure of high bank rate as it frequently happens.*"

The evil does not, of course, end at this point. But we have said enough to enable all unbiased students to form their own conclusions as to the general bearing and consequences of the India Office's management of India's finances and currency.

* * * * *

And the verdict? That we shall now leave to the consciences of all who have England's fair fame at heart, and who desire that fame to go down to posterity untarnished.

PART III

GOLD FOR INDIA

CHAPTER VIII

A PLEA FOR THE ADOPTION OF THE INDIAN CURRENCY COMMITTEE'S REPORT

1. TWELVE years having elapsed since the Indian Currency Committee (over which Sir Henry Fowler presided) recommended the Secretary of State for India to give this Dependency a gold currency as well as a gold standard, the time is now ripe for inquiring how far this policy has been carried out, and what further steps, if any, are necessary to complete the all-important mechanism of India's gold-standard monetary system.

2. The main points of the Indian Currency Committee's recommendations can be summarised as follows :—

(*a*) That whilst Government should continue to give rupees for gold, if required, no fresh rupees should be coined until the proportion of gold in the currency was found to exceed the requirements of the public (*vide* Section 60).

(*b*) That the Indian mints should be thrown

open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian branches of the Royal Mint (*vide* Section 54).

(*c*) That the British sovereign should be made a legal tender and a current coin in India at the rate of 1s. 4d. per rupee (*vide* Sections 54 and 66).

(*d*) That when the Government of India had accumulated a sufficient gold reserve, and so long as gold was available in its treasuries, it might discharge its obligations in India in gold (*vide* Section 59).

(*e*) That any credit made on the coinage of rupees should not be credited to the revenue or held as portion of the ordinary balance of the Government of India, but should be kept in gold as a special reserve, entirely apart from the Paper Currency Reserve and the ordinary treasury balances (*vide* Section 60).

(*f*) That with the object of speedily attaining the effective establishment of a gold standard and currency as above, the Government of India should husband its resources, exercise a resolute economy, and restrict the growth of its gold obligations (*vide* Section 70).

3. The above recommendations were made over the signatures of Mr. E. A. Hambro, Mr. Robert Campbell, Mr. F. C. le Marchant, Sir William Holland, Sir Alfred Dent, Sir Charles Crosthwaite, Sir Francis Mowatt, Sir John Muir, Sir David Barbour, Lord Balfour of Burleigh, and Sir Henry Fowler — all men very well qualified to give sound advice on this most important subject.

4. And how was the advice received? What steps were taken to give effect to the Indian Currency Committee's recommendations? At the time of their receipt they were undoubtedly warmly welcomed by the Government of India, who at once prepared to put them into execution. From certain sections of the commercial community in India, however, Government were subjected to considerable pressure to defer taking action. It was contended that in making the sovereign legal tender Government abandoned the advantages which the monoply position of the rupee gave for attracting gold: that the moment the sovereign was legal tender it would be absorbed, would disappear like rain into the sea, &c., so that the gradual accumulation of gold would be arrested, and that Government would be driven into borrowing for its stock of gold. Fortunately, Government was not deterred by these representations. On September 15, 1899, gold was made legal

tender in India, whilst a few months later, in March, 1900, Sir Clinton Dawkins announced :—

> "It has been decided to constitute a branch of the Royal Mint for the coinage of gold. The terms of the proclamation to be issued under the Imperial Coinage Act have been settled, and we are now merely awaiting until the Royal Mint has satisfied itself as regards the mint premises and appliances at Bombay. . . . The gold from the Mysore mines is, indeed, already reaching us in anticipation of coinage, and we count upon receiving an annual increment to our stock of gold of from one and a half to two millions from this source."

5. Be the reason what it may, the proclamation above referred to has never been issued. Nor has Government ever vouchsafed any explanation of this most extraordinary omission. To this day, India, a gold-producing country, and the richest and most powerful division of the Empire after Great Britain, still lacks its mint for the free coinage of gold. This is all the more remarkable because an open mint, accessible to the public for the ready conversion of precious metal into legal tender money, is the one central, vital pivot of every currency system, without which a country's monetary arrangements can hardly be termed a "system" at all.

6. Whilst the Government of India showed no hesitation in taking the initial steps necessary for the establishment of a gold currency in India, its subsequent actions have appeared to be singularly

lacking in steadfastness of purpose. Thus, Sir Henry Fowler's Committee suggested that as soon as Government had accumulated sufficient gold, it might commence discharging its obligations in India in gold instead of in rupees—an excellent and thoroughly practicable suggestion. Finding that gold was accumulating in its Paper Currency Reserves far more rapidly than it had anticipated, Government proceeded not only to act upon this suggestion, but to go beyond it. Attempts were made to put gold into the hands of a conservative Indian public at certain post-offices, to pay out large sums in gold (without due warning) in the encashment of currency notes remitted up-country for trade purposes by European firms, and so on. This at once aroused opposition and protest, as might have been expected. But with a most unfortunate result. Government apparently abandoned all hope of putting gold into active circulation for the time being, and, in its stead, proceeded to enter upon an astounding silver coining policy calculated seriously to jeopardise, if not wholly to wreck, the entire gold currency scheme. Notwithstanding the repeated protests of successive Finance Ministers that the banking and trading communities in India ought to rely far more on their own efforts, and far less upon Government, to finance the commerce of the country, the Secretary of State so far permitted himself to lapse

from a sound official attitude as to accept and act upon the novel theory that any man who presented gold to the India Office in London and demanded rupees in exchange therefor in Calcutta, Bombay, or Madras, was fully entitled to receive those rupees, in unlimited quantities, and exactly as they were wanted! In other words, in addition to his other innumerable functions, it became the Secretary of State's duty to finance the whole trade of India, and at a moment's notice. Not in the way that the Secretary of State desired, or the Committee of Experts who had sat specially to advise him, recommended; but in such way as the banks and mercantile houses, responding to the requirements of some of the larger European trading interests, found most convenient for their own ends, at that particular moment, to finance some particular crop. It would be interesting to hear the reply of the High Commissioner for Canada, or of the High Commissioner for Australia to a similar sudden demand to place by telegram the mints and cash balances of their respective Governments at the service of the Canadian or Australian bankers! Yet, marvellous as it may seem, this preposterous idea prevailed; and so, notwithstanding the brave words of Sir Clinton Dawkins in 1900,[1] millions after millions sterling

[1] "India has at length emerged from a period of transition in her currency, has reached the goal to which she has been struggling for years—has established a gold standard and a gold currency."—Sir Clinton Dawkins in his Budget Statement, March, 1900.

worth of new silver were purchased and coined, till a climax was reached in the years 1905-7, when no less than £42,000,000 worth of new rupees were launched upon the Indian public—*far and away the heaviest coinage of silver ever known in the history of the world.* And by a Government committed to the establishment of a gold currency, too!

7. Nemesis, however, very quickly overtook the Government of India and its new financial guides. Not only was the rise in prices then in progress throughout the Western world perceptibly stimulated in India (to the immeasurable suffering of the lowest classes, Government itself being forced to make "grain compensation allowances" on a gigantic scale to its poorest servants), but the check to trade arising out of the crop shortages in India and the financial crisis in the United States in 1907, all but wrecked India's laboriously constructed 1s. 4d. rupee—the redundancy in silver money being only relieved by a tardy transfer (through Government agency) of the equivalent of over £8,000,000 from the cash balances of the peoples of India back to the money markets of Europe.

8. Unfortunately, it is not only in (*a*) the manufacture of new rupees on an unprecedentedly large scale, (*b*) the omission gradually and persistently to introduce gold coins into circulation, and (*c*) the

failure to establish an open mint in India for the free coinage of gold, that Government have ignored the specific recommendations of the Indian Currency Committee. In utilising over a million sterling of the Gold Standard Reserve on railway construction—in adulterating that Reserve with silver—in acquiescing in the transfer of the major portion of the Gold Standard Reserve and a substantial part of the Paper Currency Reserve from India to London (with its subsequent evaporation in the form of loans to "approved banks" and investment in "gilt-edged" securities)—and lastly, in submitting to the Secretary of State's extraordinary and excessive drafts on the Indian treasuries, the Government of India have accepted and assisted in the carrying out of a currency policy diametrically opposed in all essential details to that which Sir Henry Fowler and his Committee of Experts, after a year's careful investigation, deliberately recommended.

9. If once again we closely analyse the Indian Currency Committee's advice, we shall recognise that its main feature is a recommendation to make gold the chief monetary instrument of India, not only the standard for adjusting international indebtedness, but *the currency medium by aid of which the larger traders and more wealthy members of the community could transact their business and satisfy their current requirements.* When a

Committee of prominent Financiers, Bankers, Merchants, Officials, and retired Members of the Government of India are unanimous in a recommendation of this character, it can only be assumed that they are thoroughly satisfied—

(*a*) That many people in India like, and will use, coins of gold.

(*b*) That as a chief monetary instrument gold coins are better than silver coins, or than any other form of metallic currency.

(*c*) That the open-mint, gold monetary systems of Europe and America are the best possible models upon which to frame India's currency system.

(*d*) That there is sufficient gold available in the world to permit of India establishing a gold currency as well as a gold standard.

The accuracy of these monetary axioms being beyond question, it follows that recommendations based upon them are in all probability well founded. As a matter of fact, there are few who would deny that the Indian Currency Committee's recommendations are as sound now as they were in July, 1899, when the Committee first subscribed to them.

10. If, now, we turn to the various steps taken by the Secretary of State and the Government of India subsequent to the publication of the Com-

mittee's Report, and carefully examine the practical outcome of the various moves, we shall quickly discover that they have all had one and the same result. Thus :—

(*a*) The failure to establish an open mint in India for the free coinage of gold has meant that the gold unearthed in India during the last eighteen years — say £32,000,000—could not be converted into legal tender money in this country. Therefore much of this gold has had to be sent elsewhere. In short, *India has lost the gold*, qua *gold*.

(*b*) The abandonment of the policy of putting gold into circulation by discharging some of Government's obligations in India in gold, and so familiarising the people with the advantages of gold money, has meant the neglect of the best possible means of expanding the people's taste for gold. Thus, India's demand for the precious metal has been of comparatively slow growth, and *India has lost by not importing as much gold as she would, had the people been encouraged to use gold more freely*.

(*c*) The purchase and manufacture, subsequent to the closing of the Indian mints to silver, of the largest quantity of silver

ever coined in any three years in the history of India, effectually checked the importation of gold to a more or less similar amount. Thus, not only were the peoples of India actively encouraged to continue using the depreciating white metal rather than the more valuable yellow metal, but *India was at the same time left the poorer in gold by over £50,000,000.*

(*d*) By deciding not to hold the profits on their extraordinary silver coinages in India in gold, as recommended, Government have themselves avoided the necessity of importing into India £19,000,000 or £20,000,000 in gold. Not only this. By transferring some £18,000,000 of the Gold Standard Reserve to London, Government have for the time being reduced the balance of trade in India's favour by this amount, and so *intercepted £18,000,000 which India might—indeed, should—have received in gold.*

(*e*) So, too, by transferring over £6,000,000 of India's Paper Currency Reserve (a currency that only circulates in and is only redeemable in India), from the Indian treasuries to the Secretary of State's Treasury in London, Government

have again intercepted the balance of trade in India's favour, thus *depriving India of a further £6,000,000 in gold.*

(*f*) And lastly, by transferring week after week large sums of money, far in excess of his legitimate requirements, from the cash balances in the Indian treasuries to the swollen cash balance of his London Treasury, the Secretary of State has gravely interfered with the normal adjustment of the balance of trade in India's favour, and has effectively *checked and reduced the natural flow of gold to India.*

11. Thus it will be seen that whilst the Indian Currency Committee, after a most careful consideration of the whole position, deliberately recommended the adoption of gold for India, the Secretary of State and the Government of India have, with a similar unanimity of action, so conducted their management of the currency as to check, delay, and intercept in every possible way the normal accumulation and flow of gold in and to this gold-producing Dependency.

12. In fairness to the Government of India, it must be stated that, with one exception—the failure to establish in this country a mint open to the free coinage of gold—every move in this unfortunate business of State-currency management

has been the subject of frequent discussion and explanation. Successive Finance Ministers have expounded, sometimes at considerable length, their reasons for introducing silver into the Gold Standard Reserve, for transferring the reserve to London, for investing the reserve in British and Colonial securities, and so on. In no single instance, however, have the explanations given exhibited any practical recognition of the policy and fundamental principles to which Government have throughout been committed, namely, the active establishment in India of a gold standard *with a gold currency*, on the same lines as the gold standard systems of the United Kingdom, of the British self-governing Colonies, and of the rest of the civilised world.

13. But, it may be asked, why should the Government of India desire to prevent the peoples of this country from retaining or importing whatever gold they please? There is, in truth, no reason why the Government of India should so stultify itself, beyond the all-compelling one that it is, by its constitution, forced to act, not as its Finance Ministers sometimes tell us that it has decided to act,[1] but rather in accordance with the instructions of a Secretary of State who, seated on the other side of the world amidst an altogether different environment, at times takes a different

[1] *Vide* the conclusion of paragraph 4, above.

view of the needs of the situation in India to that held by the Heads of Government on the spot.

14. But still, it will be pressed, why should the Secretary of State for India desire to withhold from the Dependency in his charge the very gold which the physicians in consultation have unanimously prescribed as the one and only remedy for India's currency troubles? It is incredible that the Secretary of State could, of set purpose, have deliberately conceived and methodically carried out so vicious a policy. And yet the fact remains that the practical upshot of Government's management of the Indian currency has been—as already explained—a continuous check to India in the acquisition of that precious metal upon the possession of large quantities of which her currency salvation immediately depended. What is the explanation of this paradox?

15. The explanation is to be found in the fact that the raising of the Indian monetary system to the level and standard of the currency systems of the United Kingdom and of the other great nations of the world, has involved a risk of certain temporary inconveniences to powerful sections of the trading and money-lending communities. And with the result, that in his effort to satisfy the demands of all who have dealings with him (more particularly of the London money market), the Secretary of State has ended by abandoning, in

effect, the first principles that should have guided him in his evolution of India's new gold monetary system.

16. Amongst a public largely illiterate, it was to be expected that the introduction of a strange gold coin of so high a value as fifteen rupees would at first be regarded with a certain suspicion. Unfortunately, some of the better educated Anglo-Indian community exhibited a similar distrust of the inflowing sovereigns, not, of course, in connection with the meaning or value of these excellent coins, but with regard to their instability to the requirements of the internal trade of India. In this way it happened that what with suspicion on the one hand, and inertia—sometimes active opposition—on the other, the Government of India found reasons—poor ones it is true, but still, reasons—for abating their activities in putting gold into circulation.

17. As to the motives which prompted the Secretary of State to veto the Government of India's decision to establish in Bombay an open mint for the free coinage of gold, an explanation will probably be found in the Secretary of State's financial environment in the City of London. Obviously, the gold-mining interests of India would not be likely to object to the creation of machinery which would save them the cost of shipping their gold to Europe for conversion into legal tender

money. Who, then, would object? The bullion-dealers and gold money-merchants of London are the only interests likely to lose a little by the establishment of an open mint in Bombay. Is it possible that the Secretary of State has been influenced by their representations? In this connection one significant fact may be noticed. It was a firm of London bullion-dealers — Messrs. Samuel Montagu & Co.—who recently gave publicity to the outrageous suggestion that the Government of India should impose a duty on all gold imported into India—a duty of a kind, be it noted, that has never been levied by any Government since the world began. Why should a *ballon d'essai* of this character be floated from such a quarter?

18. It happens that the headquarters of the Secretary of State are also the headquarters of the most amazing organisation of banking, money-lending, and credit-spinning that the world has ever known. Thanks to the energy, enterprise, and spotless integrity of successive generations of money-merchants, aided by a Government which, *facile princeps* in honesty of purpose and fair dealing to all, has combined the maximum political security with the widest recognition of the liberty of the subject, the City of London is still the greatest money market in the world. Every nation keeps a banking account in London. Every nation comes to London for capital. Every nation turns

to London for advice and guidance in matters monetary, whilst all nations regard its doings with envy and admiration. And not without reason. For, marvellous to relate, London, with probably the greatest volume of local and international monetary transactions of any city in Europe or America, nevertheless manages to conduct its huge financial business with the smallest reserves of gold held by any great country in the world!

19. It is perhaps not surprising that the Secretary of State, guided by a Finance Committee who sit amidst an environment of joint-stock and other banking interests, constantly imbibing the financial atmosphere of the London money market, should insensibly develop the same attitude of mind towards India's currency problem as that held by some of the working financiers, money-merchants, and bullion-dealers of the great City. To such the transmission of gold to the central gold market of the world, there to be dealt with in the most economical manner possible by those specially conversant with such business, doubtless presents many advantages over the establishment in India of a Government factory at which, on the demand of the public, gold could be received, assayed, and converted into legal tender money entirely free of charge. And so India still lacks her open mint. But note how one false step leads

to another. In the absence of an open mint (such as every other civilised country possesses), some provision must be made for supplying the public with such metallic money as may be demanded. The Secretary of State accordingly (1) declared British sovereigns legal tender in India, but at the same time largely (2) nullified the object of his currency policy by undertaking to produce on demand, in exchange for gold, whatever silver tokens the public might ask for. No Government in the world, ancient or modern, has ever dreamt of performing such a duty as this latter, yet the Secretary of State cheerfully shouldered the burden and—became one of the chief moneylenders and silver purchasers in the City of London.

20. This, however, was only one of many notable doings of the Secretary of State in connection with the Indian currency. The essence of modern finance and banking being the accumulation and supplying of money on terms profitable to all concerned, it is not surprising that an official who lends and borrows millions of State money without the slightest check or control of any kind should be the object of much friendly attention on the part of the London money market. In such circumstances, what more natural than that the loss of interest consequent upon the holding of large stocks of coin in the Gold Standard and Paper Currency Reserves should be pressed upon

his attention? Why keep those reserves in India? Why not transfer some of the money to London and invest it in first-class British and Colonial Securities? Although, in the case of India's Gold Reserve, the suggestion was on a par with the advice tendered to a man who, possessing a fire-engine to safeguard his country house, is persuaded to hire the machine to a friend in town in order to reap the benefit of the income so obtained, the Secretary of State nevertheless considered the transaction a good one for India, and now practically the whole of the Gold Standard Reserve and a substantial portion of the Paper Currency Reserve is so invested that in a time of grave national danger the objects of the reserves would probably be very seriously impaired. And it is not only these reserves that have been treated in this way. The Secretary of State has recently laid hands on the cash balances in the Indian treasuries, transferred them also to London, and, having no legitimate need for all this money, has invested some portions and lent others to "approved" banks and finance houses. Where the Secretary of State's financial activities are now likely to end it is impossible to conjecture.

21. In the meantime, whilst the India Office has been indulging in these alarming excursions into the realms of high finance, the feeling has been growing, not only in England but also on the

continents of Europe and America, that a very grave danger lies concealed in the extraordinarily small gold reserves of the London money market. Nobody possesses any exact knowledge as to the metallic reserves regularly held at the present day by the various banks in Great Britain, but the gold reserve of the Bank of England, upon which the whole country, in the main, depends, has for long been recognised as seriously inadequate in comparison with the current liabilities of the banks of the United Kingdom. The leading economists of the day warned the kingdom of the pitfalls of the situation over thirty years ago. Since then publicists, merchants, bankers, journalists, statesmen of various political creeds, at home and abroad, have all recognised and dwelt upon the dangers to Great Britain and to the whole British Empire of balancing so stupendous a structure of world-wide credits upon a metallic basis so perilously small. The danger is not so much from economic possibilities (though panics and financial crises which have happened before will no doubt happen again) as from grave political troubles arising out of national aggressions and international deadlocks. A great European war is by no means outside the realms of the possible. Occasional fighting is just as normal and congenial to average human nature as occasionally presenting the smitten cheek to the smiter. And it is well

that it is so, or we should quickly degenerate into beings of a fibre so poor that the first vigorous nation who battered at our doors would suppress us. Quite rightly, then, do we recognise the fact and expend seventy millions a year on naval and military preparation. Moreover, if we may judge by the temper with which the recent universal peace proposals were received by the greatest military power in Europe, we shall have to continue building *Dreadnoughts* even more liberally in the future than we have in the past—all of which is quite natural and to be expected. Unfortunately, although financial preparation for war is as much a vital necessity as the building up and perfecting of fighting material, human and mechanical, this factor in our Imperial defence problem is one that our politicians persistently ignore. Taking a leaf from the monetary policy of the bankers and merchants of the City of London (who, it may well be presumed, know their own business best), the British Government maintains no gold reserves at all of any kind, for any purposes—not even for its Trustee and Post Office Savings Banks' business (liabilities over £250,000,000), nor for its naval and military machinery, upon which the security of the whole Empire depends. Indeed, Government never has sufficient ready cash at its bankers to conduct its own work of administration, and it only manages to carry on from day to day

by a succession of overdrafts and temporary borrowings. The British Chancellor of the Exchequer's current I.O.U.'s at the present moment amount to over £13,000,000.

22. It may be well at this point to put on record, first, what the gold reserve of the Bank of England actually stands at (as compared with the gold reserves of some of the other nations, great and small), and, secondly, some of the opinions expressed by experts regarding the magnitude of England's reserve. The following figures represent the reserves of gold held in the treasuries and national banks of some of the chief countries in the world on December 31st last :—

	£
The United States ...	263,241,000
France	131,177,000
Russia	130,476,000
Austria	55,023,000
Italy	48,363,000
Argentina	37,033,000
Germany	33,052,000
Australasia	31,820,000
England	31,356,000

To-day the Bank of England's stock of gold is approximately £40,000,000, and continental stocks of the precious metal are also somewhat higher. Whilst the Bank of England's figure affords an astonishing testimony to the confidence which the public feel in the integrity of London's great bankers, and the ability of the British Government

to defend the nation's interests and maintain peace, it at the same time gives rise to grave misgivings in the minds of all who recognise the magnitude of the disaster which might follow any serious loss of confidence or violent destruction of credit. We cannot forget that on more than one occasion in recent years England has been assisted over what would probably have developed into a serious financial crisis by the goodwill of the Bank of France, who have shipped a few millions sterling in gold to London and so saved the situation. Our continental friends may not always be able to be so accommodating. What would happen if, instead of helping us, they were to remain neutral or to turn actively hostile?

23. When, in the early years of last century, Napoleon endeavoured to overthrow British power, one of the means that he employed was a subtle attempt to drain Great Britain of its stock of bullion. Regarding our valuable credit structures of those old days as dangerously over-developed, Napoleon decided to attack this vulnerable point in every possible way; hence, among other measures, the Berlin and Milan Decrees. That his schemes eventually failed was not so much due to any flaw in his premises as to the innumerable difficulties experienced in the carrying out of the measures that he devised for our discomfort. With a credit development of immeasurably

greater proportions and far more delicate and sensitive to international activities [1] than anything that Napoleon ever imagined, is not Great Britain. with the smallest gold reserve of any first-class Power in the world, now running a considerable risk?

24. Every authority, without a single exception, answers in the affirmative. At the recent meeting of the Association of Chambers of Commerce of the United Kingdom, during the debate (March 14, 1911) on the question of the inadequacy of England's gold reserves, one of the speakers (Mr. J. Howell, of Bristol) reminded the meeting that—

> ". . . this is no new question. It has been discussed for forty-five years, during which time fifteen resolutions have been proposed by the Associated Chambers, three Memorials have been sent to Parliament and to two Chancellors of the Exchequer in succession. . . ."

In 1908 the Council of the London Chamber of Commerce appointed a very strong special Committee [2]

[1] In this connection, it may be mentioned that in 1910 there were 28 foreign banks in London with 1,427 branches abroad, and £430,000,000 of public deposits. All those banks could, at will, draw for substantial sums on the Bank of England.

[2] The Committee consisted of the Right Hon. Lord Avebury (Robarts Lubbock & Co.), Mr. F. Faithfull Begg, Mr. I. Hamilton Benn, Mr. H. W. Birks, Lord Blyth, Mr. Charles Charleton, Mr. James Dixon (Chairman, Lloyd's Register), Mr. F. S. E. Drury (Peek Bros. & Winch), Sir J. Fortescue Flannery, Bart., Mr. Howard Gwyther (late Chairman of the Chartered Bank of India, Australia, and China), Mr. Alderman Hanson, Sir E. H. Holden, Bart., M.P. (London City &

> " . . . to consider whether the Gold Reserves of the country are sufficient, and, if not, what remedies can be suggested."

After a year's deliberation, the Committee issued its report. The Committee were unanimous in recognising the

> " . . . desirability of strengthening the Gold Reserves of this country" ;

and a majority made certain specific recommendations with the object of improving the situation. These recommendations are still the subject of discussion amongst the interests concerned. In the meantime, the Association of Chambers of Commerce of the United Kingdom, at the meeting referred to above, unanimously passed the following resolution :—

> "That the Association reaffirms the Resolution with reference to the Gold Reserves passed in March, 1906, in the following terms :—
> "That the recognised and constant insufficiency of the Gold Reserve of the United Kingdom requires the immediate attention of the Government."

Not that Government had not already taken cognisance of the dangers of the situation. Thus

Midland Bank), Sir Edward Law, Mr. R. A. Patterson, Mr. J. Spencer Phillips (Lloyds Bank), Mr. J. A. Pixley (Pixley & Abel), Mr. J. Innes Rogers, Sir Felix Schuster, Bart., Mr. A. Serena (Galbraith Pembroke & Co.), Mr. Nathaniel Spens, Sir Albert Spicer, Bart., M.P., Mr. J. Herbert Tritton (Barclay & Co.), Mr. A. J. Waley, Mr. Stanley Machin, Sir Robert Giffen, K.C.B., the Hon. Herbert C. Gibbs (Antony Gibbs & Sons), and Mr. Lawrence Currie (Glyn, Mills, Currie & Co.).

Mr. Asquith, when Chancellor of the Exchequer, at a bankers' dinner in July, 1906, said that this question of the gold reserve was

> " . . . a matter of grave and increasing importance, and it was at that moment engaging his most serious attention. . . ."

The late Lord Goschen followed at another bankers' dinner in July, 1906—

> " . . . Here we are, with enormous liabilities and with a smaller stock of gold than any other country holds. . . . It is not a satisfactory situation. . . ."

Yet in spite of this unanimity of opinion, nothing has actually been done. Mr. Edgar Crammond, in Manchester last year, and again in London a few months ago,[1] has delivered powerful addresses on the subject of our "Gold Reserves in Time of War," arguing and proving, with a wealth of illustration, that in the event of a powerful enemy organising large withdrawals of gold from London at about the date that it had made preparations to attack us, we should unquestionably be very seriously embarrassed, if not reduced to financial chaos—an argument in which the *Times* [2] admitted there was some weight. Professor Foxwell has recognised that it is by no means certain that we

[1] At the London Chamber of Commerce, on March 13, 1911, Mr. Stanley Machin, Chairman of the Council of the Chamber, in the chair.
[2] March 14, 1911 (Financial Supplement).

could get through a first-rate war without an inconvertible currency. At an important discussion of this subject at the Royal United Service Institution in 1908, when an important paper by Sir Robert Giffen was under consideration—

> " . . . several speakers expressed their conviction that a suspension of payments would be inevitable on the outbreak of a first-rate war; and Sir Felix Schuster said that we should certainly prohibit shipment of gold to the enemy [a course] which would involve a partial suspension [of cash payments]. . . ." [1]

25. It comes, then, to this: that whilst the present gold reserve of the Bank of England is, in practice, adequate for current requirements *so long as the political sky at home and abroad is cloudless*, every expert is agreed that the margin of safety is dangerously small, and that the reserve ought to be at once strengthened. Seeing that an economic crisis (arising out of, say, excessive overtrading, stimulated by a period of rising prices) is liable so seriously to denude Great Britain of its stock of gold as to necessitate help from foreign banks, most people are of opinion that the strengthening ought to take the form of a considerable increase in the reserve of precious metals held against emergencies; and further, that Government ought to contribute to the reform by

[1] *Vide* Professor Foxwell's Preface to Dr. Andreades' "History of the Bank of England" (English translation).

accumulating its own political and commercial gold reserve (such as other nations possess), quite apart from the reserve held by the Bank of England and some of the other great banks in the United Kingdom. And, lastly, whilst there are some who contend that the present slender state of Great Britain's gold reserve exposes the nation to very serious danger in the event of a great Power organising a sudden raid on our stock of gold for political ends, there are many experts of the highest standing who recognise that should Great Britain unfortunately become involved in war with a first-class European Power, most of our gold reserve would probably disappear within the first twenty-four hours; cash payments would probably be suspended, and the nation be saddled with appalling financial losses—the result of the collapse of our top-heavy credit structure—quite apart from the crushing weight of the ordinary war expenditure. And all the result of our unwise dependence upon a Gold Reserve that is on all hands admittedly inadequate.

26. These facts explain the close attention with which every movement of specie and bullion in and out of the Bank of England is watched by the London money market, and, indeed, by all the money markets of the world. London being the central reservoir of fluid gold to which every nation first turns in moments of financial difficulty, the

daily position of the Bank of England is a matter of world-wide interest. Gold can always be obtained in moderate quantities from the Bank of England *in times of peace.* So, too, the Bank of England can always attract gold from Europe and America *in times of peace* by the simple expedient of raising its rate of interest. The expedient is one which the whole commerce of England quickly feels in the higher rates it has to pay for the money that it is always borrowing. Still, taking into consideration the low cost of English capital all the year round, commerce considers the game "worth the candle"; and, the risk of international complications involving Great Britain in a European war being, in the opinion of most, a very remote one, commerce elects to regard the appalling ruin which the wholesale collapse of credit (consequent upon the outbreak of such a war) would cause as a contingency similarly remote—if not altogether negligible.

27. And yet the risk is there. Indeed, recent events have warned us that the danger is perhaps nearer than many people think. Hence the qualms which the London money market experiences whenever large sums are suddenly withdrawn from the Bank of England. Not that the removal of half a million or so to America or the Continent of Europe causes any alarm. The case is very different, however, if the demand come from India,

the reason being that whereas movements of gold out of London to the other capitals of the West in adjustment of international indebtedness are generally followed by reverse movements of gold back to London in settlement of Europe's and America's indebtedness to England, in the case of India the balance of trade is generally in her favour (and not by a small margin, but by amounts that may occasionally rise to thirty, forty, or even fifty millions sterling per annum); and gold that leaves London for India has very little chance of ever finding its way back again.

28. To a money market engaged in balancing the largest business in the world on the smallest basis of gold ever attempted, this possibility of India regularly withdrawing millions after millions of the precious metal from England's scanty stock acts as a perpetual nightmare. By a process of reasoning not difficult to follow, London's financiers have arrived at the conclusion that as Great Britain's monetary stability is a matter of far greater importance than the satisfaction of India's demand for gold, India's requirements in this direction must always be subordinated to the exigencies of the London money market. If India can obtain the gold she wants without directly drawing from London—from Australia or from Egypt, for example—London is all the better

pleased. If India must have gold from London, then the London money market will endeavour to meet the demand—if it conveniently can. But there must be no wholesale removals in millions or tens of millions ; that would be far too disturbing. India must always remember that the requirements of the London market demand first consideration, and that the needs of the Indian public can only be thought about after the obligations of those responsible for the regular pulsation of the financial heart of the Empire have been completely fulfilled.

29. Such are the seemingly not unreasonable principles which have guided the London money market in its handling of India's financial affairs. Nor can we feel any astonishment that the Finance Committee of the India Office and the Secretary of State should also have been influenced by such apparently sound considerations. In combination with other lines of reasoning, to some of which allusion has already been made, they appear to afford good grounds for denying to India an open mint for the free coinage of gold, for declining to encourage the peoples of India to make more use of gold, for transferring India's Gold Standard and Paper Currency Reserves to London, and, generally, for employing every conceivable financial manœuvre—even to the transfer of the Government of India's "till money" from India to

London—in order to check as far as possible the export of gold from London to India.

30. That such has actually been the policy deliberately followed is abundantly clear. Sir Guy Fleetwood Wilson, during the course of the debate upon the Indian Budget in March, 1910, remarked :—

> " . . . In all such matters it is useless to ignore the fact that opinion in England has to be considered. Personally, it is my earnest desire, as it is my intention, to approach Indian finance from an Indian standpoint, but I can conceive nothing more unfortunate than any attempt to separate the common interests of England and India, or any failure to recognise how dependent India is on the markets at home. . . ."

Mr. Meston, in the same debate, was even more explict :—

> " . . . We must walk warily [he said] when there is any danger of disturbing the chief gold market of the world, or of creating or exaggerating any gold stringency which will react on Indian finance as surely as the day follows night. . . ."

In the telegraphic columns of the *Times of India*, of March 12, 1910, appeared the following :—

> " . . . It [*i.e.*, the *Times* of London] understands that the Indian Government are doing their utmost to check the movement of gold and are even offering the Indian banks currency

> on the other side at sixteenpence against gold they can get in Egypt and Australia and bring here. . . ."

This was followed a few days later by an obviously inspired reply :—

> ". . . The statement that the Government are doing their utmost to check the movement of gold to India misrepresents the present financial situation. Needless to say, the Government of India are always only too glad to see gold on its way to this country, and would never think of checking shipments, but they cannot control operations in London. . . ."

This makes it very clear (1) that London is sometimes working in opposition to the views of the Government of India, and (2) that the London money market is at times engaged in operations specially designed to prevent India from receiving the gold that is her due.

* * * * *

33. One of the first inquiries that springs to the mind, on having traced the problem of India's monetary troubles thus far, is, Why, if England's gold reserves are admittedly inadequate in comparison with the inverted pyramid of world-credits poised thereon, has the Secretary of State added to the tenderness of the structure by contributing £24,000,000 of India's Gold Standard and Paper Currency Reserves thereto? Why this financial

piling of Pelion on Ossa? Why, indeed? Well may we ask! Our country friend whose fire-engine had been lent on hire to a firm in town could not find himself in a more embarrassing situation on the outbreak of fire in his most cherished country house than the Secretary of State for India endeavouring, on a declaration of war against England having been made, to sell £10,000,000 or £15,000,000 of Irish Land Stock, Transvaal War Loans, British Consols, &c., in a money market paralysed by panic and probably reduced to a state of barter consequent upon the suspension of cash payments. At such a time every European bank and mercantile firm in India would be endeavouring to strengthen its position at its headquarters by remitting surplus funds home. The Government of India would be forced to draw on the Secretary of State, probably for very large sums; and unless the India Office could instantly meet every demand made upon it, no matter how heavy, the loss of confidence would quickly bring the rupee down with a crash to its par value as silver—probably not much above 7d. or 8d. in such a crisis. So that in addition to war troubles at home, plus financial chaos consequent upon an inadequate gold reserve in London, the Empire would probably be called upon to bear the additional burden of a grave financial crisis in India, wherein both public and Government would be

severely damaged, many of the former being probably irretrievably ruined.

34. What can be done to safeguard the position? The Gold Reserves Committee of the London Chamber of Commerce, already referred to, have made certain specific recommendations, namely :—

1. That the issues of the Bank of England against Government Debt and Securities, commonly called the Fiduciary Issue, form an undue proportion of the whole, and should be reduced.

2. That a reasonable reserve in gold should be held against the deposits in the Trustee and Post Office Savings Banks.

3. That the Bullion Department of the Bank of England affords a means by its enlargement for the aggregation of gold reserves held by others than the Government of India, viz. :—

(*a*) The banks of the United Kingdom, including the Bank of England, in respect of such gold held against their liabilities in excess of till money as any of them may elect to deposit in the Bullion Department.

(*b*) Scotch and Irish banks in respect of all or any portion of the extra gold held by them against excess issues under the Act of 1845.

(*c*) The National Debt Commissioners and the Postmaster-General in respect of the gold which the Committee recommend should be held against the liabilities of Trustee Savings Banks and Post Office Savings Banks respectively.

4. That all persons or companies carrying on the business of banking within the United King-

dom should once in every calendar month, in case their liabilities on current and deposit accounts exceed in all the sum of ten million pounds sterling, and once in every three months in all other cases, make a statement of their position showing the average amounts of liabilities and assets on the basis of weekly balance-sheets for the preceding month, or three preceding months, respectively, stating the following amounts separately :—

(*a*) Liabilities on current, deposit, and other accounts.

(*b*) Liabilities on notes in circulation.

(*c*) Liabilities on bills accepted.

(*d*) Gold and other coin and gold bullion held.

(*e*) Bank of England notes held and balance due by the Bank of England.

(*f*) Balance due by clearing agents.

And that a copy of the statement should be put up in a conspicuous place in every office or place where the business of the persons or company is carried on.

5. That it is desirable that the Bank of England should make an annual return, showing the aggregate bankers' balances for each week of the preceding year.

These recommendations, which involve additional burdens upon all interests immediately concerned —*i.e.*, upon (*a*) Government, (*b*) the Bank of England, and (*c*) the other banks of the United Kingdom—would, if carried into practice, undoubtedly do much to improve the position. It is doubtful, however, whether the London money market can be brought to act simultaneously and with unanimity in a matter which involves sacrifices

in many directions without the assistance which legislation would afford. Whether a Government chronically under heavy obligations to this same money market is likely to possess the courage to undertake such "assistance" seems open to doubt.

35. Fortunately, there is another and most effective means whereby the desired end can be attained —a means beneficial alike to India as well as to England. It consists in the peoples of India pressing upon their Government and upon the Secretary of State the acceptance of the recommendations made by the Indian Currency Committee. It consists, in other words, in the opening of the Indian mints to gold, in the creation of a popular Indian gold currency, and in the retention in India, *in gold*, of the reserves that ought never to have been taken out of the country. This policy might possibly involve the regular withdrawal of gold from London at the rate of half a million a week; but such acquisitions of gold would be good for India, and the withdrawals would also be for the good of London, little as the money market might appreciate the remedy. London might very possibly have to take special measures to attract gold to take the place of that regularly drawn off by India; but this fact would stimulate attention at home to a state of affairs that has too long been neglected by the public. In the meantime, a

second gold currency and a second gold reserve would be in course of formation within the Empire —a monetary system that would not only permanently assure the purchasing power of India's rupee currency, but would at the same time prove a valuable source of Imperial strength in times of Imperial danger.

* * * * *

39. It is interesting at this stage to note what has become of some of the new gold produced in recent years. The following figures of the gold holdings of some of the central banks of the world and of the treasuries which act as central banks, tell an important story. (The figures have been extracted from the *Statist* of January 21, 1911):—

Country.	Stock of Gold held on		Increased Stock.
	Dec. 31, 1900.	Dec. 31, 1910.	
United States Treasury ...	£102,038,000	£233,437,000	£131,399,000
Russia: State Bank and Treasury	75,540,000	130,470,000	54,936,000
France	93,600,000	131,177,000	37,577,000
Argentina: Caja de Convers...	6,272,000	37,033,000	30,761,000
Italy: National Bank	12,008,000	38,060,000	26,052,000
Brazil: Caja de Convers ...	Nil.	19,000,000	19,000,000
Austria	38,624,000	55,023,000	16,399,000
Japan	6,864,000	24,192,000	17,328,000
Germany...	24,084,000	33,052,000	8,968,000
United States: National Banks	21,512,000	29,804,000	8,292,000
Italy: Other Banks than Nat....	4,092,000	10,308,000	6,216,000
Holland	4,877,000	10,398,000	5,521,000
Belgium	2,843,000	8,252,000	5,409,000
Australasia	26,420,000	31,820,000	5,400,000
Roumania...	1,592,000	4,756,000	3,164,000
Bank of England	28,541,000	31,356,000	2,815,000

Practically every nation, it will be seen, has retained more of the new gold than Great Britain.

40. The situation is now becoming quite clear. At the present day there is more gold available and in course of production than at any previous period in the history of the world. The London money market, however, relying on its great reputation and upon its tremendous powers for attracting gold—*in times of peace*—deliberately elects to allow practically the whole of the new supplies to go past it rather than pay the price of holding a larger stock, believing, no doubt, that the loss of interest which the maintenance of an increased reserve would involve might jeopardise its position as supplier of the cheapest capital in the world. As all frankly admit, this light-reserve policy means little or no risk, *in times of peace*. (Indeed, if universal peace could be positively guaranteed, and also the due fulfilment of all monetary obligations—in other words, if the millennium were anywhere within measurable distance —gold reserves might be dispensed with altogether. They are, of course, only the measure of our advance from conditions of barbarism.) But in the event of commercial crises or political upheavals —local and international—a small gold reserve means a risk of financial disaster. And as the world has by no means advanced to the stage when commercial crises and political imbroglios

are outside the realms of the possible, it behoves us to maintain a gold reserve more in proportion to our responsibilities, and to the actual conditions of commercial and political worlds, than that on which we are at present relying.

41. There is yet another matter to be considered, perhaps the most important of all. Reference has already been made to the fact that gold is now slowly but steadily depreciating in value—that prices are everywhere rising. To all fixed wage earners, and particularly to all workers on the lowest stages of the mechanism of modern production (*i.e.*, to over three-quarters of the population of every nation, India included), this loss of purchasing power involves the cruellest injustices which it ought to be one of the first aims of Government to remove. The only conceivable method by which the situation can be ameliorated is by encouraging in every possible way the further use of gold both in the arts and for currency purposes. To economise and check the use of gold money by promoting the manufacture of millions after millions of silver coins in India, as the Secretary of State did for several years in succession, is simply to swell the volume of metallic money available in the world, and so to emphasise the rise in prices which, on every ground—justice, expediency, sound administration—it is Government's first duty to arrest.

42. The case has now been completely stated. It only remains briefly to recapitulate the grounds upon which this plea for a gold currency for India rests. It is assumed that the superiority of gold over silver as a chief monetary instrument is as patent as the superiority of silver over, say, cowries. What is required is a purchasing instrument whose efficacy is most widely recognised ; a measure of value whose stability is as near perfection as is humanly possible ; a standard of deferred payments satisfactory both to debtors and creditors ; and a store of value upon which the individual agriculturist, manufacturer, or trader can rely with the same certainty as the Bank of England or the Governments of Europe and America. Gold answers to these several requirements more closely than any other metal. Moreover, its superiority in appearance and portability is obvious to all. If it be murmured that the value of, say, the sovereign or the half-sovereign is high—too high—for an agricultural population such as forms the great majority of the peoples of India, the reply is that probably more individuals in India are in a position to use gold coins for their requirements than in the United Kingdom itself. India, with its 315 millions of people, and a trade—internal and foreign—greater than that of all the self-governing British colonies put together, must no longer be put off with a

second-rate currency manufactured from a seriously depreciated metal that has long ceased to satisfy portions of the Empire of not one-quarter her wealth, power, and prestige.

43. An open mint is the first step. The part which such mints play in all modern currency systems may here be recalled. The general level of prices is undoubtedly connected (though in Western nations who employ highly developed credit machinery the connection is considerably obscured) with the volume of money in circulation. If prices in Country A are relatively low, the outside world—Countries B, C, D, &c.—are induced to purchase freely of A's goods. This involves an inflow of gold into A, the gold being converted into legal tender money through the agency of A's mint. The increased demand and inflow of money, however, tend to raise prices in Country A, perhaps so much so, that Countries B, C, D soon see an advantage in shipping goods to A for sale in that market. Such transactions probably result in the balance of trade turning against A, and an adjustment is made by shipping bullion or specie from A to some other part of the world where it can be more profitably employed. Crudely stated, this represents the underlying principles that guide movements of bullion and specie for currency purposes, and that regulate the adjustment of international price levels. Only

by means of open mints, it will be noted, is it possible for the public to convert precious metal into legal tender money. Thus the open mint is the automatic regulating machinery by which the world-equilibrium is maintained—an equilibrium of international price levels on the one hand and of the volume of the currency to the requirements of the public on the other.

44. Without this essential mechanism of an open mint, neither the currencies nor the general levels of prices of the various countries of the world are free to adjust themselves rapidly and without hindrance to public demands. In the absence of an open mint, all additions to and deductions from the volume of currency in circulation have, perforce, to be made by some Government department. In such circumstances, Government is constantly subjected to pressure from this or that interest to supply more money or to take money off the market (and thus indirectly to manipulate price levels); and the result means, not only friction and delay, but, no matter how conscientiously Government may endeavour to carry out this work, it will inevitably be subjected to adverse criticism by those who are unable to understand, or to appreciate, or to accept each money-making or money-reducing transaction. The drawbacks of a "State-managed" currency are so notorious and so widely recognised that no

great nation in the world at the present day attempts to control the volume of currency to be created or to be withdrawn week by week ; but, having established open mints for the free coinage of full legal tender money, the Governments of the world leave the operation of their mints to the demands of the public. India is the only great country in the world (with the exception of China) the management of whose currency is still left in the hands of Government officials, an arrangement to which we can find no parallel since the period of the Middle Ages.

45. An open mint being established, the next step would be to define exactly where the Secretary of State's functions in relation to the Indian currency should end. India, like every other division of the British Empire (and, it may be added, most foreign nations), is under a yearly obligation to Great Britain for capital and services supplied. The sum payable by India may be taken roughly at £16,000,000 per annum. At a period when the Indian mints were open to the free coinage of silver, and when the public were always able to obtain as many rupees as they required by the simple process of importing silver and asking the mint authorities to convert that silver into legal tender money, it was a convenience for the Secretary of State to procure this £16,000,000 by selling his drafts on the Indian treasuries at a

shade below the cost to the public of importing silver into India. The price that the Secretary of State obtained for the rupees that he offered for sale was governed from day to day by the gold price of silver in the markets of the world. Nobody would, of course, pay the Secretary of State more for a rupee than they could obtain a rupee for, by purchasing silver and having the same converted into a rupee at one of the Indian mints. These being the conditions, the Secretary of State wisely arranged to sell his drafts on the Indian treasuries by public auction. In this way he succeeded week by week in obtaining the best possible price for the rupees that he sold.

46. With the closing of the Indian mints to the free coinage of silver in 1893, the *raison d'être* of these weekly auctions of Council drafts vanished. From that year nobody could obtain new rupees, or, indeed, any rupees at all in large quantities, except by purchase from the Secretary of State. The Secretary of State was, in fact, in the position of a monopolist, able to obtain his own price for such rupees as it pleased him to sell. Whether he made his selling price 1s. 4d., or 1s. 6d., or even 2s., the public would in the end be compelled to pay the price that he demanded. Yet—such is the force of habit—the Secretary of State continues to this day to go through the same business of inviting tenders for the rupees that he

proposes to auction each week; and, as his sales save the public the trouble and expense of shipping sovereigns to India (where the coins are the legal equivalent of Rs. 15), his actions are invariably applauded in some quarters, the more especially as, for the greater part of the year, he very obligingly—and quite unnecessarily—sells his rupees at less than the equivalent of what it would cost the public to place sovereigns in India. Not only this. Having disposed of the 24 crores of rupees which the Government of India place at his command and realised the £16,000,000 required to liquidate the home debt, the Secretary of State does not stop further sales of Council drafts, but continues accepting tenders for rupees, week after week, to an apparently unlimited extent, mostly at below gold specie point too, till his cash accumulations in London, for which he has no legitimate use, have lately amounted to a figure that has everywhere aroused hostile comment.[1]

47. This anachronism of a State-managed cur-

[1] At the last meeting of the Supreme Legislative Council in Simla (September 18, 1911) the Hon. Mr. Armstrong asked, *inter alia*, if the Government would be pleased to state "whether much larger cash balances are now held in the Home Treasury than formerly, and if so, to state the reason for this." Sir Guy Fleetwood Wilson admitted the impeachment, and gave, amongst other explanations, "the heavy sales of Council Bills and Telegraphic Transfers in excess of the requirements of the Home Treasury." See also the *Times of India* of September 28, 1911, and the *Pioneer* of October 5, 1911, which contain adverse criticisms on the state of affairs now revealed. The cash balances in the hands of the Secretary of State in London have arisen from £4,607,266 in March, 1908, to no less than £16,697,245 in March, 1911!

rency, with its attendant inevitable irregularities, might now fittingly be brought to an end. The adjustment of India's external debt should be effected in exactly the same way as in the case of Canada or Australia, namely through the agency of the leading banks, the operation being kept altogether separate and distinct from the work of the Indian mints. The inflow or efflux of bullion and specie into, or out of, India is a matter over which neither the Secretary of State nor the Government of India should attempt to exert the slightest control. The movements should be spontaneous, the only impulse being the requirements of the public arising out of the natural ebb and flow of the world's commerce.

48. Canada's total State debt is £94,132,609, of which £52,900,902 is payable in London, The annual interest on the portion of the debt payable in London amounts to £1,867,370 (March 31, 1910). This interest is paid by the Bank of Montreal, who are the financial agents of the Dominion Government in this connection. Australia's total State debt amounts to £251,773,533, of which £189,410,036 is payable in London. The interest on the London portion of the debt is approximately £9,000,000 per annum. How is this £9,000,000 paid? Not by the High Commissioner of the Commonwealth putting up the interest to auction in weekly lots,

and by granting to the highest bidders orders on the Australian treasuries to pay out sovereigns in Australia in exchange for sovereigns received by him in London; but a simple, business-like arrangement with the London County and Westminster Bank and with other banks who have headquarters and branches in England and Australia, and who make the necessary payments of interest twice a year to those entitled to receive the same.

49. Here we see in operation those sound principles of monetary science which it is so essential should be adopted forthwith in the case of India—mints open to the free coinage of gold; a gold currency as well as a gold standard; and Government entirely disassociated from any attempt at currency manipulation. There are in the case of India several powerful and excellently managed banks between whom the duty of paying £16,000,000 per annum in London in exchange for some Rs.24,00,00,000 delivered to them from the treasuries in India might appropriately be divided. New Government of India sterling loans could also—if desired—be floated and disposed of by the banks, and the interest annually distributed, all through the same agencies. One very important point should be noted. The exact amount of the annual payment for home charges having been decided upon and budgeted for, no further remittances from India to London would be made

on Government account. The balance of trade in India's favour would have to be finally adjusted in exactly the same way as in the case of every other country in the world, namely, by the shipment of bullion and specie—chiefly gold—to India.

50. In the carrying out of the policy here advocated, it may be mentioned that the melting down and disposal of rupees in order to purchase gold for coinage is not contemplated. The silver coins of India would remain, as they are at present, mere tokens, representing, in the case of the rupee, one-fifteenth part of a sovereign. No fresh supplies of these tokens would probably be needed for some years, provided no restrictions whatever be placed on the free importation and circulation of gold in India. More particularly is this result likely to come about if India's open mints be equipped for the coining of distinctively Indian coins, such as the mohur and the pagoda. The natural inflow of gold in adjustment of the balance of trade would, in all probability, be quite sufficient for the building up of the required gold currency in India.

51. It may be at once admitted that the adoption of the Indian Currency Committee's Report would mean the importation into India of a continuous stream of gold, possibly at the rate of £500,000 a week. Moreover, a large portion of this gold would probably be drawn from London. Nothing

that the London money market can do, however, will permanently check the flow of gold eastward. So long as British administration, British enterprise, British example in matters economical, and a maintenance of the *pax Britannica* stimulate the continued commercial, social, and political development of India, so long will this country require a larger and larger volume of gold in settlement of the balance of her huge and ever expanding oversea trade, and of her constantly growing demands for everything that is best—for currency as well as for decorative and ornamental purposes. The devious methods of the last few years have but temporarily delayed the inevitable. There now being no more Gold Standard Reserve, but a small margin of the Paper Currency Reserve, and practically no more spare cash in the Indian treasuries to transfer from India to London, the greatest money market in the world is at length face to face with the nightmare that has so long haunted it—a continuous and ever increasing flow of gold to India. Doubtless Western financiers will before long recognise that their fears with regard to this normal movement of the precious metal to India are, after all, but a nightmare, and that the reality is not nearly so fearsome as the imaginative editor of the *Statist* and some other monetary experts would have us to believe.

52. In conclusion we may now summarise the

many advantages which would follow an immediate adoption of the Indian Currency Committee's Report, and of the establishment of a full-value, legal tender, gold currency in this country. The advantages can be appropriately grouped under three headings : thus—

Advantages to India.

1. The opening of the Indian mints to the free coinage of gold and the introduction of a gold currency into everyday use would give to India a monetary medium far superior in appearance and portability to silver. Further, such a medium would exhibit in the highest possible degree every quality which good metallic money should possess, and would at the same time raise India to the level of the most advanced nations of the West so far as her currency was concerned.
2. India's silver currency would be for ever placed on an absolutely stable basis with no possibility of serious depreciation or sudden collapse, with attendant ruin to all classes and most grave embarrassments to Government.
3. India's financial strength in the eyes of the world would be immensely increased.

Capital is one of the prime essentials of wealth creation. India with a gold currency would be able to borrow capital on far more favourable terms than at present. Moreover, the increased confidence which a gold currency would create would act as a most powerful stimulus to every form of economic development.

Advantages to Great Britain.

1. The steady and continuous withdrawal of gold from London to India would force upon the attention of the peoples of the United Kingdom the very unsatisfactory, not to say dangerous, condition of their own gold reserves—private reserves as well as State reserves.
2. The strengthening and building up of those reserves which must assuredly follow would mean increased commercial and political strength at headquarters, and therefore an improvement of the resources of the whole kingdom.
3. The creation of an immennse stock of gold in the currency and reserves of India, whilst adding immensely to India's strength, would at the same time mean an addition to the resources of the Empire as a whole.

Other Advantages.

1. Allusion has been made to the fact that a phenomenally large output of gold from the mines of the world is being accompanied by a world-wide depreciation in the value of the precious metal, that prices are everywhere rising, and that the fixed wage earning classes, who constitute a very large proportion of the population of every nation, are therefore enduring disappointments and hardships which, in the case of the poorest of the poor, are, in fact, cruelties of civilisation, for which it is the urgent duty of every Government and every thinking citizen to attempt to find a remedy. Though certain Governments have already taken steps to investigate the situation, very serious "labour" troubles have in the meantime occurred in the United Kingdom, whilst "dear food" riots have broken out in several parts of Europe. Whilst it would be incorrect to attribute these terrible upheavals solely to a depreciating currency, there can be no question that the position is painfully aggravated by the shrinkage in the purchasing powers of money that is now in

progress. The currency policy for India here advocated would mean, not only more gold in demand for Great Britain, but a continued withdrawal (and to some degree, consumption) of gold by India. Such additional demands for gold could but tend to increase the value of the metal, and so, perhaps, arrest the rise in prices now taking place (in India as well as Europe), to the very great relief of the whole of the Eastern and Western worlds.

53. There are, then, the best of reasons—local, Imperial, and universal—why the recommendations made by Sir Henry Fowler's Committee of Experts in 1908 should be carried into practice forthwith. It is for India to take action.

CHAPTER IX

PROGRESS ALREADY MADE

THE material of which the preceding chapter is composed was submitted in October, 1911, in the form of a memorandum, to the Karachi Chamber of Commerce, together with a suggestion that if the Chamber concurred in the conclusions arrived at, steps should at once be taken for giving effect to the recommendations of the Indian Currency Committee. It was further suggested that the procedure for carrying out these recommendations should, as far as practicable, be embodied in a legislative enactment. A draft Bill for amending the Indian Coinage Act was also submitted (*vide* Appendix H).

As a consequence of this reference, the Karachi Chamber of Commerce addressed all the other Indian Chambers of Commerce as follows :—

"My Committee have had under consideration a memorandum, prepared by our Chairman, reviewing the administration of the Indian currency system during the last twelve years and

urging that the recommendations of the Indian Currency Committee of 1898-9 (which were accepted by the Secretary of State and Government of India) be now carried into effect in their entirety.

"My Committee have given the matter their careful consideration, and they have arrived at the conclusion that the time has arrived for a more effective recognition of the recommendations made by Sir Henry Fowler's Committee of 1898-9 for the introduction of a gold currency as well as gold standard into India than has yet been accorded by the Secretary of State.

"My Committee are of opinion that this end would best be attained :—

"(1) By opening the Indian mints to the free coinage of gold.

"(2) By restricting the annual drawings of the Secretary of State on the Indian treasuries to the figure entered in his annual Budget (approximately £16,000,000).

"(3) By restricting the further coinage of new rupees until the proportion of gold in the currency was found to exceed the requirements of the public.

"(4) By encouraging the use of gold coins in every possible way as recommended by Sir Henry Fowler's Committee.

"Further, my Committee continue to be of the opinion—an opinion which they conveyed to the Government of India in December, 1903—that the larger portion of the Gold Standard Reserve should, for the present, be retained *in India, in gold*.

"In placing the above views before your Chamber I am instructed to inquire how far your Committee concur with the same ; and also whether your Chamber would be prepared to make a joint representation to the Govern-

ment of India with the object of securing the complete acceptance of the Indian Currency Committee's recommendations."

The replies from the leading Indian Chambers of Commerce can be summarised as under :—

FROM THE BOMBAY CHAMBER OF COMMERCE.

"Your questions, after submission to the Finance Sub-Committee, have been considered in detail by the General Committee, and I am instructed to reply as follows :—

"(1) My Committee agree that the Indian mints should be opened to the free coinage of gold. As to whether gold will come freely to the mint is an open question which time alone will show.

"(2) Although my Committee are not quite unanimous as to this, the suggestion that the annual drawings of the Secretary of State on the Indian treasuries should be limited to the figures entered in his annual Budget is generally approved. Whether from the point of view of the financing of our trade this should be attained by fixed monthly drawings, or by some other method, is a matter needing careful consideration, and before making such a recommendation to Government some practicable scheme ought to be formulated and generally approved.

"(3) My Committee do not favour this proposal, but according as gold coins found a place in the circulation the need for fresh additions to the silver currency would, automatically, be reduced.

"(4) To this my Committee agree, but here again a specific recommendation as to the steps to be taken should be put forward with the proposal.

"On the question that the larger portion of the Gold Standard Reserve should, for the present, be retained in India, in gold, there is some difference of opinion. It is, however, agreed that no further addition should be allowed to the reserve in London, and that future profits on coinage should be carried to a Gold Standard Reserve in India. Some portion of the present reserve should also, it is thought, be held in actual gold and the amount in whole or in part be retained in this country to the credit of this reserve."

FROM THE BURMA (RANGOON) CHAMBER OF COMMERCE.

"With reference to your letter of the 25th ultimo under the above heading I am to inform you that the Committee of the Chamber will be pleased to support a joint representation of the Indian Chambers on the subject.

"Meanwhile I should be much obliged if you would kindly send me half a dozen copies of Mr. Webb's memorandum."

FROM THE TUTICORIN CHAMBER OF COMMERCE.

"With reference to your letter No. 580, dated October 25, 1911, I beg to inform you that this Chamber concurs on the whole with the views of your Committee and is willing to make a joint representation to the Government of India on the subject."

FROM THE UPPER INDIA CHAMBER OF COMMERCE.

"I am directed to refer to your letter, dated October 9, 1911, with which you forward a copy

of a memorandum which has been prepared by the Honourable Mr. M. de P. Webb, C.I.E., dealing with the Indian currency question, in which certain specific recommendations are put forward for the improvement of the present state of affairs.

"While the Committee realise that there is much to be said from the point of view of India's interests in support of Mr. Webb's recommendations in regard to (*a*) the opening of the Indian mints to the free coinage of gold, (*b*) the controlling of the Secretary of State's annual drawings on the Indian treasuries, and (*c*) the restriction of the coinage of new rupees, they are unwilling at the present stage to express a more definite opinion on a subject of such extreme delicacy and complexity.

"They are, however, prepared to support any representations having for their object :—

"1. The popularisation of the people's taste for gold coins by every possible means.

"2. The acceptance of the principle that the greater portion of the Gold Standard Reserve should be held in India in gold.

"3. The investment in gold as a part of the Gold Standard Reserve of the so-called profits on silver coinage.

"My Committee will also go farther and co-operate with your Chamber in endeavouring to secure the submission of your Bill to the verdict of the Imperial Legislative Council, with the special object, apart from the actual provisions of the Bill, of forcing a discussion on the whole currency question, a discussion which they consider would be productive of nothing but good."

The Punjab (Delhi) Chamber of Commerce concurred as to the desirability of opening the

Bombay Mint to the coinage of sovereigns, but was disinclined to support the other proposed reforms, whilst the Bengal and Madras Chambers declined to stir at all in the matter. The reply of the Bengal Chamber is worthy of special note. " . . . The general feeling in Calcutta is not altogether favourable to the establishment of a gold currency . . . ," wrote the Committee of the Chamber, " . . . and with this feeling they " (the Committee) " are in sympathy. The present currency system is, in their opinion, working smoothly and satisfactorily, and they would hesitate to recommend that it should be disturbed. . . ."

As summarising the general results of the action taken by the Karachi Chamber of Commerce in this connection, and restating in succinct form the general position of the case as it appears in the eyes of many of the residents in India, the following extract from the Chairman's Annual Address to the Karachi Chamber of Commerce (delivered in Karachi on March 26, 1912) is appended :—

> " And now to another subject—perhaps the most important to which we can give attention—the development of the currency and the management of India's finances. Believing that India—the greatest, the richest, and the most powerful dependency of the British Empire—should be equipped with a currency at least as good as that of the smallest of the colonies, we have continued our efforts to obtain a practical and whole-hearted acceptance of the

Indian Currency Committee's Report of 1898. The Bombay, Burma, Upper India, Tuticorin, and Punjab Chambers of Commerce have replied sympathetically to our inquiries, and promised to join us in taking action. Madras and Bengal—ominous combination—alone seem satisfied that India's currency arrangements have reached perfection and that nothing further need be done. The incoming Committee will be carrying on the course already laid down, so I need not here further refer to it. In the meantime, however, there are certain other supremely important matters to which I am anxious to draw your special attention.

"I was reading the other day a very excellent little book—'The Meaning of Money,' by Mr. Hartley Withers, the City editor of the *Times*. The book explains the workings of the money market in London, and will repay study by the expert as well as by the 'man in the street.' In his Chapter VII. Mr. Withers deals with some of the greatest moneylending concerns of the City of London. Amongst these great moneylenders the author includes, you may be surprised to hear, 'the Indian Government's representatives.' Possibly you thought that the functions of the Secretary of State for India were confined to the direction, under the authority of Parliament, of the general policy and administration of the Government of India. So many other people have thought. No doubt these are, and ought to be, his functions. But he has in recent years gone far beyond his functions, and has now become one of the most potent factors in the London money market, ranking, as Mr. Withers has announced, amongst the greatest moneylenders in the City. Well may we ask, in the words of old Molière, 'What the devil is *he* doing in that galley?' That is a question that ought to be asked in every Chamber of Commerce in India, and will, I hope, be investi-

gated by Parliament also. Mind, London is no small place, and to rank amongst the chief moneylenders of London is to be, in fact, one of the chief money-mongers in the world. Is this what India expects of her Secretary of State?

"You know, of course, what it all means. It means that the money merchants of London carry on the largest business in the world on the smallest stock of gold, that they are in consequence in perpetual apprehension lest a sudden demand for the precious metal should deplete their slender stock and so force them to raise their charges for lending money, and render them dearer than their competitors. To prevent this awkward possibility they use every device permissible by law to guard their stock of gold, even to the extent of intercepting as far as they can the normal flow of gold to India in settlement of the balance of trade in India's favour and of the demands of the Indian public. The Secretary of State has been the most pliant of tools in their hands, abandoning all orthodox monetary principles, withdrawing from India at their bidding, not only eight millions sterling of the metallic support to our paper currency (a currency, if you please, that circulates and is redeemable *only in India*) but also twelve million sterling of our floating cash balances from our treasuries and over seventeen millions sterling from our Gold Standard Reserve. This explains the Secretary of State's reputation as a great money-dealer. The official who can manage to handle £35,000,000 of somebody else's money is obviously an important factor in any money market—even in London. But what are we—the victims—to think of these movements from India to England of India's own money? The whole business is, I submit, most discreditable to the India Office. I go farther. I say unhesitatingly and deliberately that were any

private individual to misapply his employer's cash as the India Office have misapplied the cash balances and monetary reserves of this country, he would be simply courting disgrace and dismissal—if not something far more serious.

"The situation is doubly dangerous because not only are the cash reserves of the United Kingdom admittedly inadequate, but the finances of Great Britain are now being manipulated in a way that has seriously impaired the confidence of large sections of the public. Tampering with the Sinking Fund and carrying on the daily business of government by aid of colossal temporary borrowings are not methods that commend themselves to sober financiers. These temporary loans have amounted to as much as thirteen millions sterling. What a contrast in Government financial methods! On the one hand Mr. Lloyd George with an overdraft of £13,000,000 from the London money market, and on the other hand Sir Guy Fleetwood Wilson with such a plethora of cash in the Indian treasuries that he is able to spare £12,000,000 or so without any serious embarrassment! But, I ask, and the question must have suggested itself to everybody who studies the subject, why should the people of India be so taxed as to yield these enormous cash surpluses for transfer to London, there to be lent, indirectly, of course, to bolster up the unsound, borrow-as-you-go-and-never-mind-the-Sinking-Fund finance of Mr. Lloyd George? If the Government of India have any spare cash to lend, there is every reason why that cash should be placed at the disposal of the public in India, not transferred to London and lent out secretly at probably much lower rates to the London money market.

"Another problem! The world's output of gold is now, as you know, of such phenomenal magnitude that gold is everywhere depreciating—prices are rising—and grave labour troubles are

> thereby encouraged and developed. Can we call that policy wise which, amidst such conditions, hinders and prevents the normal flow of gold to India? Yet such is the policy to which the India Office is at present lending a more than willing hand."

This last problem is the one that we are attempting to solve. Let us now gather together the conclusions to which our considerations of the subject have led.

PART IV

THE DILEMMA SOLVED

CHAPTER X

THE BASIS OF BRITAIN'S STRENGTH

In considering the financial policy to which the Secretary of State for India has recently lent the machinery of his great office, we came to the conclusion that, quite apart from the morality of—

(1) over-taxing the peoples of India to yield cash surpluses for transfer to London, and
(2) exposing our Eastern Dependency to the risk of monetary dislocation by transferring practically the whole of its Gold Standard Reserve to London, there investing it in securities which would be unsaleable in time of war

(both in order to prevent a normal flow of gold from London to India), the policy itself was particularly inept and futile, because, however successful it might be *temporarily*, it was bound to fail *in the long run*, as soon as the various cash reserves and floating balances in the treasuries of the Government of India (upon which the Secretary of State had been so freely drawing) were

completely exhausted. Having come to the end of his extraordinary tether, the Secretary of State would at last be compelled to return to his ordinary and normal duty of only withdrawing from India as much as his sterling obligations in England compelled. In the meantime, sovereigns and gold would be shipped to India in steadily increasing quantities, gold coins would slowly but surely become increasingly popular as current money, and the rupee currency would gradually sink to its true and inevitable position of mere tokens—metallic fractions of the sovereign, or of whatever gold coin might hereafter be made legal tender in India.

From the broader aspect of the effect upon the purchasing power of the sovereign generally, the India Office's recent efforts to support the London money market in engineering further economies of gold were shortsighted and unsound, because the preventing of gold going into consumption simply meant, in effect, the providing of still more metal upon which to trade and build credits. In other words, a further depreciation in the value of gold (*i.e.*, the rise in prices) was directly encouraged by this policy, and, consequently, the seeds of more wages disputes, labour friction, strikes, and economic losses deliberately, though perhaps unthinkingly, sown. The specific results of a policy of gold economy cannot, of course, be exactly

particularised, but the tendency set up and the economic and social results to be anticipated at the present day from such a policy are certainly beyond question.

What, then, should be done? If the checking of gold exports to India, with the object of averting a rise in the London discount rate and so saving Britain's commerce from an additional interest charge, be undesirable or unsound, what is the alternative? The alternative was clearly indicated in our opening chapters. The alternative is to encourage an increased demand for gold. Britain's industrial and social progress is at the present day jeopardised by a perpetual friction between the fixed wage earners, whose real wages (owing to the general rise in prices) tend steadily to diminish, and their several employers, whose real profits (owing to the movement of the market being, more often than not, upwards) tend steadily to increase. The underlying explanation of this disconcerting phenomenon is the present extraordinary and yearly advancing production of gold. The remedy is an increased use and consumption of the precious metal. Minor employments for more gold were discussed in Chapter II., but the principal and most certain relief will be found in the direct encouragement to the peoples of India to employ more gold for their currency and for ornamental purposes. The possibility is before us.

Its conversion into accomplished fact is but a matter of determination and—time.

Firstly, the Indian mints should be opened to the unrestricted coinage of gold—specially distinctive Indian gold coins, as well as sovereigns, being freely manufactured at the public request. Secondly, the anachronism and absurdity of a Government official putting up for auction a silver token coin, of which he holds the entire monopoly, and for which he is, therefore, able to dictate the exact price, should be ended forthwith, and the settlement of India's home charges arranged for through the agency of the leading banks, *the total sum remitted being rigorously limited to the amount of the Secretary of State for India's annual Budget*. The India Office being thus entirely cut off from its present extraordinary work of financing private trading concerns at the Government of India's expense, the banks and the public would be compelled to ship gold or sovereigns to India regularly in settlement of the balance of trade in India's favour ; in exactly the same way as all banks, in all parts of the world and under all circumstances, at present have to ship bullion and specie to and fro in accordance with the requirements of trade. If the Government of India happened to find themselves in possession of unusually large cash balances, such balances should be utilised to foster trade in India

by being lent out in India to "approved borrowers" at such rates of interest and upon such security as the Government of India might decide.

The practical upshot of these much-needed reforms would be to create an increased demand for gold in India, and, consequently, a regular withdrawal of perhaps as much as half a million sterling a week from London. These withdrawals would undoubtedly for the first month or two disturb the London money market, and necessitate the taking of special measures to force Europe and America to contribute their quota of metal to satisfy the new Eastern demand. In the rearrangement of discount rates consequent upon this regular withdrawal of gold for India, neither London nor the United Kingdom would suffer in the long run. I have remarked in an earlier chapter that the magnitude of our gold reserves is, in truth, but the measure of our advance from conditions of barbarism. So, too, with regard to the price of credit. This price is determined, not solely by the size of our gold reserves, or even by the magnitude of our immediate material wealth, but also by our reputation for honesty, our industry, thrift, and successful work. If, then, the bankers and merchants of the City of London are able to attract to them business of a volume amazing in its magnitude, and at the same time to operate on terms more favourable to the world at large than some

of their competitors, the reasons are not wholly connected with their visible resources. They are the result of a world-wide reputation for uprightness, security, certainty, and strength, on a scale perhaps unparalleled in any other political, commercial, or financial centre in the world. This reputation London's merchants, financiers, and bankers will assuredly retain, whether the general level of discounts remain in the neighbourhood of 3 or 5 per cent. Certain it is that if the present unique position with regard to the world's output of gold can only be met by creating conditions which result in a 5 per cent. bank rate, then Paris, Berlin, and New York will be compelled to maintain a similar, or even higher, level of discounts. And in the inevitable readjustment of rates that must follow, Great Britain will assuredly retain the same position of pre-eminence that she holds to-day.

With a permanent rise in current discount and interest rates, all "gilt-edged" securities (and many others of similar respectability) may be expected to experience a further fall in values. But some further fall is inevitable. The stimulus to enterprise, and the advantageous market conditions which a period of rising prices creates for producers, transporters, distributors, and financiers spell increased profits for all those classes. And with so many undertakings bringing in high

returns, comparatively poor yielding Government stocks and other securities bearing fixed rates of interest must sink into yearly increasing disfavour amongst those who have spare capital to invest. In this respect they will, however, but merely share in the general shrinkage in the value of money that must continue to go on so long as the present phenomenal output of gold shows no signs of diminution. To those who actively employ their capital in their own business, compensation will be received in the additional profits and prosperity which are ordinarily reaped by capitalist producers in times of rising prices. To the comparatively few who depend solely on their investments in Government stocks and securities yielding fixed rates of interest, serious hardships may have to be faced. In this respect the monied minority (including no doubt many of the "idle"—and useless—rich) will not be so badly placed as the struggling millions whose daily bread depends upon the success with which they can win a fixed wage—of steadily diminishing purchasing power. A remedy which would sacrifice the welfare of these millions in order to shield a few of the comparatively well-to-do classes can hardly be considered humane or sound. Nor is it likely to command political support when its true bearings are widely understood. On the other hand, we have the policy which it is the object of the present work

to advocate—a policy of saving the many strenuous workers at the expense, possibly, of some few of a small class of non-working interest-receivers, a class more able—as a whole—than any other to withstand the difficulties created by the present dwindling in the value of the sovereign.

Here, then, it is submitted, is the only rational solution of the great dilemma with which Britain is now face to face. That it is one that will meet with universal approval it would be absurd to imagine. That it presents in the long run less disadvantages to the nation as a whole than any other policy yet proposed I submit is unquestionable. For the gold is with us, and more gold is appearing every year. We cannot sit still and ignore this fact. Or, if we do, we cannot expect to escape the certain consequences of our ignorance or neglect.

* * * * *

In the meanwhile, and until such time as we may decide to attempt concerted action on an Imperial scale, on rolls the flood in gathering volume, slowly creeping over the civilised world, quietly obliterating effort after effort, and threatening in the end to undermine the very foundations of our social and political existence. During the next ten years a thousand millions sterling or more of glittering gold will be added to the volume of metal already unearthed, and in the following decade

another thousand millions, and so on. The watery deluge of biblical record was a swift and merciful punishment for erring mankind compared to the prolonged anguish which a wide realisation of the meaning of this golden flood must bring. To the rich minority, far removed from the forefront of life's battle, the loss of substantial portions of their accumulated wealth, consequent upon the shrinkage in the value of money, is not a pleasant prospect. To the poor majority (including those thirteen millions of our home population who are always on the verge of starvation) a continuation of the rise in prices now in progress will mean, not merely the stereotyping of the unsatisfactory conditions amidst which they are at present living, but an increase in the severity of their struggle for existence that can only result in the untimely downfall of large numbers of the more unfortunate.

And whilst this situation is slowly developing, the firstfruits of the fall in gold are already being reaped. The speculator, the financier, the banker, the transporter, the merchant, the employer of labour, and even the labourer himself are all delighted at the improvement in trade. An inflation of prices invariably stimulates industry —at first; and increased industry with increased trade spell increased profits and increased money for all—depreciated money, it is true; but who notices the shrinkage in the *value* of the counters

when their *numbers* show such gratifying increases! A fool's paradise is a delightful place to live in—for the fools, but the awakening comes at last, with its disillusion, its disappointment, its despair. And in the case of our shrunken sovereign the awakening may be indeed bitter. Then the multitude of fixed wage earners will realise that all their past efforts to improve their condition have been in vain. Then the unreasoning masses will turn upon the already depleted classes with greater vindictiveness than ever. Strikes upon strikes, over-speculation, panics, and financial crises—these will be the symptoms, and should the deluge continue unchecked, the forces which make for cohesion and order in the State must be seriously dissipated, till, at length, our whole Western civilisation may be in danger of a lapse from which it may take centuries to recover.

With some knowledge of what may conceivably overtake us, is it too much to hope that science and patriotism will combine to meet the situation? We do not drain and improve our lands by declining to recognise the excess of water lodged thereon, but by constructing channels to carry off the surplus moisture. So, too, we cannot expect to maintain our economic and social health by shutting our eyes to the unprecedented flood of gold that is now affecting us, but by creating channels and reservoirs whereby the deluge can be diverted

and stored for the subsequent use and benefit of mankind as a whole. Such reservoirs and channels are possible in the shape of gold reserves—political and commercial—in the United Kingdom and other parts of the Empire, and increased facilities and opportunities for encouraging the flow of gold to India and the East. Other tropical dependencies than India might also be introduced to the benefits of the British sovereign, should the offtake by India prove insufficient to keep the flood down. Here is the solution of the problem. It is for Great Britain to apply it.[1]

[1] *Vide* also "The Century Deluge" in the *Nineteenth Century and After* for December 1912.

APPENDICES

APPENDIX A

INDIAN CURRENCY COMMITTEE'S REPORT, 1899.

The following extracts from the Indian Currency Committee's Report of 1899 (the "Fowler Committee") give a summary of the history of India's monetary arrangements up to 1898.

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4. At the beginning of the present century no uniform measure of value existed in British India. Some parts of India (*e.g.*, Madras) maintained a gold standard and currency; elsewhere, as in Bengal, a silver standard obtained, with gold coins in current circulation; throughout India the coins, whether of gold or silver, differed in denomination and differed in intrinsic value even within the same district. Out of this confusion arose the demand for a uniform coinage, a demand to which the Court of Directors of the East India Company gave their approbation in the important dispatch on Indian currency addressed by them to the Governments of Bengal and Madras on April 25, 1806. It is important to observe that the Directors, while "fully satisfied of the propriety of the silver rupee being the principal measure of value and the money of account," by no means desired to drive gold out of circulation. "It is not by any means our wish," they said, "to introduce a silver currency to the exclusion of the gold, where the latter is the general measure of value," any more than to force a gold coin where silver is the general measure of value." Nevertheless, the firstfruits of the policy of 1806

were seen in the substitution, in 1818, of the silver rupee for the gold pagoda as the standard coin of the Madras Presidency, where gold coins had hitherto been the principal currency and money of account. In 1835, when the present silver rupee was formally established as the standard coin of the whole of British India, it was enacted that "no gold coin shall henceforward be a legal tender of payment in any of the territories of the East India Company."

5. But, though gold had ceased to be a legal tender in India as between private individuals, the coining of gold mohurs (or "15-rupee pieces") was authorised by the Act of 1835, and a Proclamation of January 13, 1841, authorised officers in charge of public treasuries "freely to receive these coins at the rates until further orders respectively denoted by the denomination of the pieces." As the gold mohur and the silver rupee were of identical weight and fineness, this Proclamation represented a ratio of 15 to 1 between gold and silver. In 1852 it was held by the Directors of the East India Company, on representations from the Government of India, that the effect of the Proclamation "has been, and is likely to be still more, embarrassing" to the Government of India. "The extensive discoveries of gold in Australia having had the effect of diminishing its value relatively to silver, holders of gold coin have naturally availed themselves of the opportunity of obtaining, at the Government treasuries a larger price in silver than they could obtain in the market." Consequently, on December 25, 1852, there was issued a notification withdrawing the above provision of 1841, and declaring that, on and after January 1, 1853, "no gold coin will be received on account of payments due, or in any way to be made to the Government in any public treasury within the territories of the East India Company."

6. In 1864 the Bombay Association (representing the native mercantile community of Bombay)

and the Chambers of Commerce of Bengal, Bombay, and Madras having memorialised the Government of India for a gold currency, the Government proposed "that sovereigns and half-sovereigns, according to the British and Australian standard, coined at any properly authorised Royal Mint in England, Australia, or India, should be made legal tender throughout the British Dominions in India at the rate of one sovereign for Rs.10; and that the Government currency notes should be exchangeable either for rupees or for sovereigns at the rate of a sovereign for Rs.10, but they should not be exchangeable for bullion." The Imperial Government, while unwilling to make the sovereign a legal tender, saw "no objection to reverting to a state of matters which prevailed in India for many years, namely, that gold coin should be received into the public treasuries, at a rate to be fixed by Government, and publicly announced by Proclamation." It was considered that this experimental measure "will, as far as it goes, facilitate the use of the sovereign and half-sovereign in all parts of India; it will pave the way for the use of a gold coinage in whatever shape it may ultimately be found advisable to introduce it; and at the same time, it establishes a preference in favour of the sovereign." Accordingly, on November 23, 1864, a Notification was issued that sovereigns and half-sovereigns should, until further notice, be received as equivalent to Rs.10 and Rs.5 respectively, in payment of sums due to Government. In the following March the Directors of the Bank of Bengal urged that, "in view of the continued influx of sovereigns," the time had come when British gold might, "with safety and advantage, be declared legal tender at the respective rates of ten and five rupees," and the Government of India again pressed their original proposal on the Imperial Government. The Secretary of State replied on May 17, 1865, that the time did not appear to have arrived for taking any further step, nor did he see that any practical

advantage would attend the proposal to admit British gold to legal tender in India. On October 28, 1868, the Government of India raised the rate for the receipt of sovereigns and half-sovereigns at the public treasuries from Rs.10 and Rs.5 to Rs.10$\frac{1}{4}$ and Rs.5$\frac{1}{8}$ respectively.

7. In 1876, after the rupee had temporarily fallen in exchange to 18$\frac{1}{2}$d., the Bengal Chamber of Commerce and the Calcutta Trades Association urged the temporary suspension of the compulsory coinage of silver by the Indian mints. The Government of India decided that "up to the present there is no sufficient ground for interfering with the standard of value."

8. In 1878, however, the Government of India expressed a different opinion, being "led to the general conclusion that it will be practicable, without present injury to the community as a whole, or risk of future difficulties, to adopt a gold standard while retaining the present silver currency of India, and that we may thereby in the future fully protect ourselves from the very real and serious dangers impending over us so long as the present system is maintained." Aiming at the eventual adoption of the British standard, and the extension to India of the use of British gold coins, the Government proposed to proceed at the outset as follows: "We first take power to receive British or British-Indian gold coin in payment for any demands of the Government, at rates to be fixed from time to time by the Government, till the exchange" (about 1s. 7d. in 1878) "has settled itself sufficiently to enable us to fix the rupee value in relation to the pound sterling permanently at 2s. Simultaneously with this the seigniorage on the coinage of silver would be raised to such a rate as would virtually make the cost of a rupee—to persons importing bullion—equal in amount to the value given to the rupee in comparison with the gold coins above spoken of. We should thus obtain a self-acting system under which silver would be admitted for coinage at the fixed

gold rate as the wants of the country required; while a certain limited scope would be given for the introduction and use of gold coin, so far as it was found convenient or profitable." The above proposals of 1878 were referred to a Departmental Committee, who, on April 30, 1879, briefly reported that they were "unanimously of opinion that they cannot recommend them for the sanction of her Majesty's Government." A discussion of some of the reasons which appear to have influenced the Committee of 1879 in urging the rejection of the proposals referred to them will be found in the evidence given before us by Sir Robert Giffen, who was a member of that Committee (see Questions 10,025-48).

9. Between 1878 and 1892 the continued fall in the gold price of silver caused repeated embarrassment to the Government of India; but the main object of such attempts as were made by that Government to deal with the subject during the period in question was not to effect a change of standard in India, but to facilitate an international agreement which might cause a rise in the gold price of silver, and thus diminish the inconvenience resulting from the retention of a silver standard in India.

10. In 1881 Indian delegates were sent to the Monetary Conference at Paris, with instructions that "while the Secretary of State in Council is unwilling to encourage an expectation of any material change at present in the monetary policy of India, he would be ready to consider any measures calculated to promote the re-establishment of the value of silver." In 1886, shortly before the appointment of the Royal Commission on Gold and Silver, the Government of India expressed the opinion that "the interests of British India imperatively demand that a determined effort should be made to settle the silver question by international agreement"; and in 1892 Indian representatives were sent to the International Monetary Conference at Brussels, which

was convened for the consideration of measures for the increased use of silver as currency.

11. In 1892, inasmuch as it was foreseen that the International Conference might fail to secure the objects for which it was to be called together, the idea of changing the standard of value in India from silver to gold had been once more brought into prominence by the action of the representatives of the mercantile community of Calcutta. On February 18, 1892, when the International Conference was in prospect, the Bengal Chamber of Commerce represented that it was "impossible for men of business to feel any confidence in the future value of the rupee, and they believe that such a state of things restricts the investment of capital in this country and seriously hampers legitimate enterprise." If success could not be secured by international agreement, the Chamber saw nothing "but the prospect of endless fluctuations in the relative values of silver and gold, attended with a fall in the value of silver of indefinite amount; and the Committee [of the Chamber of Commerce] think that in such case the Government of India should take steps to have the question of the advisability of introducing a gold standard into India carefully and seriously considered by competent authorities." In their dispatch of March 23, 1892, the Government of India, while urging the Secretary of State to lend his "support to any proposals that might be made by the United States of America, or by any other country, for the settlement of the silver question by international agreement," called attention to the probability that, failing an international agreement, the United States would be forced to stop the purchase and coinage of silver, and they requested the Imperial Government, in view of this contingency, to take forthwith into consideration whether any, and, if so, what, measures could be adopted for the protection of Indian interests. On June 21, 1892, the Government of India proceeded to record their "deliberate opinion that, if it

becomes evident that the direct agreement between India and the United States is found to be unattainable, the Government of India should at once close its mints to the free coinage of silver and make arrangements for the introduction of a gold standard." In a telegram of January 22, 1893, the Government of India further explained their proposals as follows: "Our proposal is that we shall take power to issue a notification declaring that English gold coins shall be legal tender in India at a rate of not less than $13\frac{1}{3}$ rupees for one sovereign [*i.e.*, 18d. per rupee]. An interval of time, of which the length cannot be determined beforehand, should, we think, elapse between the mints being closed and any attempt being made to coin gold in India. The power to admit sovereigns as legal tender might be of use as a measure *ad interim*, but it need not be put into force except in case of necessity."

12. The proposals of the Government of India were referred on October 21, 1892, by the Earl of Kimberley, the Secretary of State for India, to a Committee, consisting of the late Lord Herschell, Lords Farrer and Welby, Mr. Leonard Courtney, Sir Arthur Godley, Lieut.-General Sir Richard Strachey, and the late Mr. Bertram Currie; and on May 31, 1893 (the Brussels Conference having meanwhile adjourned without arriving at any agreement), the Committee reported as follows:—

"While conscious of the gravity of the suggestion, we cannot, in view of the serious evils with which the Government of India may at any time be confronted if matters are left as they are, advise your lordship to overrule the proposals for the closing of the mints and the adoption of a gold standard which that Government, with their responsibility and deep interest in the success of the measures suggested have submitted to you.

"But we consider that the following modifications of these proposals are advisable: The closing

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of the mints against the free coinage of silver should be accompanied by an announcement that, though closed to the public, they will be used by Government for the coinage of rupees in exchange for gold at a ratio to be then fixed, say, 1s. 4d. per rupee ; and that at the Government treasuries gold will be received in satisfaction of public dues at the same ratio."

* * * * *

13. The Committee's recommendations having been approved by the Imperial and Indian Governments, there was passed, on June 26, 1893, the Act, No. VIII. of 1893, "to amend the Indian Coinage Act, 1870, and the Indian Paper Currency Act, 1882." This Act provided for the closing of the Indian mints to the "free coinage" of both gold and silver—Government retaining the power to coin silver rupees on its own account. By Notifications (Nos. 2662-4) of June 26, 1893, arrangements were made (1) for the receipt of gold at the Indian mints in exchange for rupees at a rate of 16d. per rupee ; (2) for the receipt of sovereigns and half-sovereigns in payment of sums due to the Government at the rate of Rs.15 for a sovereign ; and (3) for the issue of currency notes to the Comptroller-General in exchange either for British gold at the above rates or for gold bullion at a corresponding rate.

14. In 1897 the Secretary of State for India referred to the Government of India the question whether, if the mints of France and the United States of America were opened to the free coinage of silver as well as gold at a ratio of $15\frac{1}{2}$ to 1, the Government of India would undertake to reopen concurrently the Indian mints to the free coinage of silver and to repeal the above Notifications of 1893. In reply, the Government of India expressed their "unanimous and decided opinion" that it would be "most unwise to reopen the mints as part of the proposed arrangements, especially at a time when

we are to all appearance approaching the attainment of stability in exchange by the operation of our own isolated and independent action." This conclusion was endorsed by the Secretary of State for India in Council and by the Imperial Government.

15. In January, 1898, "in order to afford a means of relief to the severe stringency" then prevailing in the Indian money markets, an Act was passed (No. II. of 1898) empowering the Government of India to direct, by Order notified in the *Gazette of India*, the issue of Currency Notes in India on the security of gold received in England by the Secretary of State at the rate and subject to the conditions to be fixed by such Order. Under this Act, which was to remain in force for six months, a notification was published by the Government of India on January 21, 1898, announcing that notes would be issued, in exchange for gold held by the Secretary of State for India, at the rate of one Government rupee for 7·53344 grains of fine gold, with the addition of such further quantity of fine gold as the Secretary of State should from time to time determine to be "sufficient to cover all costs and charges incidental to the transmission of gold to India." Under this notification the Secretary of State in Council gave notice of his readiness "to sell, until further notice, telegraphic transfers on Calcutta, Madras, and Bombay, at a rate not exceeding 1s. $4\frac{5}{32}$d. for the rupee." This Act was extended for a further period of two years by the amending Act, No. VIII., of 1898. No gold has been tendered under the provisions of these Acts.

16. It will thus be observed that at the present time gold is not a legal tender in India, though the Government will receive it in the payment of public dues; that the rupee remains by law the only coin in which other than small payments can be made; that there is no legal relation between rupees and gold; but that the Indian Government

has declared (until further notice) a rate at which rupees can be purchased for gold coin or bullion—such rate serving to determine the maximum limit to which the sterling exchange can rise under present arrangements.

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APPENDIX B

FIFTEEN YEARS OF CURRENCY MANAGEMENT (1893–1908)

The following articles were contributed to the *Times of India*, and are reproduced by kind permission of the Editor :—

For over fifteen years the Secretary of State for India has been working at the Indian currency with the object of establishing a gold monetary standard for India, with, if possible, a gold currency. Although the relative values of the rupee and the sovereign have been artificially fixed at a comparatively stationary point (thus proving that local legislation can achieve what many people imagined international legislation to be unable to accomplish), this result has been brought about with such frequent aberrations from business methods, and such a singular disregard of the principles upon which sound monetary developments should be based, as to give rise to the suspicion that the monetary requirements of this country are not receiving the consideration that their importance demands, and that the manipulation of the Indian currency is, in certain respects, being conducted mainly for the benefit of a section of the London money market rather than in the interests of the peoples and trading communities—Indian as well as European—of this, the chief dependency of the Empire. Such suspicions are most damaging to the credit of Government. They tend, moreover, to undermine that confidence in the Indian currency system which

is one of its main supports. In the circumstances, a brief review of the whole situation is certainly called for. Perhaps by carefully considering the principles upon which every monetary system ought to be based, and by recalling the extent to which the Government of India have departed from those principles, it may be possible to put an end to the present period of eccentricity and uncertainty in the management of the Indian currency.

I.

Let us commence, then, with first principles. Good money should serve four main ends. It should be an effective purchasing instrument. It should be an accurate measuring instrument (*i.e.*, it should be able to measure and determine values). It should serve as a reliable store of value. And it should act as a certain stimulus to industry. With the exception of the last function (which was first specifically emphasised in my "Great Power" nearly thirteen years ago), the other attributes of good money have been universally recognised from the time of Aristotle onwards. Gold and silver have ever been the most popular forms of money because, with little or no assistance from kings or governments, they have been in universal demand. The possessor of gold or silver could always obtain what he wanted in exchange for it. From time immemorial the precious metals have served as stores of wealth and as convenient means in which to express the relative values of other commodities. By the operation of cutting gold or silver into small pieces of convenient size and stamping thereon (under the king's seal or effigy) the weight of each square or disc the public were saved the trouble of testing the quality and weight of the gold or silver for which they exchanged their other goods. Thus came into existence the various currencies of the world. With the growth of the machinery of government appeared legislation defining the various currencies and enforcing their acceptance. Currency

manufacture was for many centuries a royal prerogative. And, it must be added, the various "royalties" of the Middle Ages did not hesitate to perpetrate every form of monetary dishonesty upon their ignorant and helpless citizens. Tin, copper, lead, and even leather was impressed as money. The money was valued at the ruler's will, and with little reference to values in neighbouring States. Coins were degraded and debased, issued secretly, or withdrawn, as the rulers pleased. The rating of the various forms of money one to another was constantly changed. The utmost confusion reigned and the greatest discontent prevailed everywhere. By degrees the universal dishonesty of the people's rulers resulted in the development we now have in use with us—viz., an open or free State mint at which either gold or silver could be tested, weighed, and converted into money *at the request of the public*. Imperfect as this system is, it is the best means which practical statesmen have yet devised to ensure a liberal supply of good money and at the same time protect the public against the machinations of dishonest rulers and corrupt governments.

It is desirable that the great defect of the open mint system should be clearly understood. One of the main functions of money is, as we have seen above, to measure values. Now, the measuring function of money largely depends, not upon the nature, quality, weight, value, or official stamp on any particular coin (be that coin a standard, legal-tender coin, or any other) but upon the *number* of coins that may be in circulation at any given time. If, to assume an extreme case, the amount of rupees in every person's possession in India could be suddenly doubled in one night, it is certain that the value of those rupees would not be the same on the following morning. The sudden addition to the currency would have the effect of lowering its purchasing power: in other words, it would raise the general level of prices. The value of the

rupee would be less than before, and its measuring function correspondingly distorted, the shrinkage in the public measure of value would involve grave hardship and injustice upon every person in receipt of a fixed wage, because this wage would not purchase much more than one-half of what it did before. Relations between debtors and creditors would have been arbitrarily changed, to the serious loss of the latter. Every outstanding public and private transaction would assume a new relation, and not an individual of the 300 millions of this continent would escape the consequences of the change, though possibly not one in a million could exactly explain its cause. By establishing an open mint free to the public for the manufacture of gold or silver money the State is exposing the public measure of value to the hazards of the mining industry, of the world's demands for gold and silver for artistic and political purposes, and of the currency legislation of foreign countries working solely for the benefit of their own populations. These hazards may involve a vast addition or a vast diminution in the available current supplies of gold or of silver and a corresponding expansion or diminution of the State's public measure of value. No civilised Government would tolerate such possibilities with regard to its public standards of weight, length, or capacity, and it is very strange that so little attention is given to the maintenance of stability with regard to our standard measure of value.

The only alternative to the open mint system of money manufacture is that of Government control. As the measuring function of money depends in the last instance upon the *number* of coins in circulation, Government could abolish its "free" mints and only manufacture such money as might be required from time to time "for the public service" (*vide* Clause 9 of the Coinage Act of 1870, 33 Vict., chap. 10). In this way the number of coins in circulation might be so regulated as to maintain the

measuring function of money as nearly stable as possible. The experiences of the past, however, combined with the very great difficulty of carrying out such a delicate duty to the satisfaction of the public, has made the British all the world over extremely averse to any form of State management in connection with the volume of the currency. Rather than risk a repetition of the very grave evils of maladministration, English people prefer to face the open free-mint system, notwithstanding its serious defect, merely defining by legislative enactment the material, quality, and weight of their chief coins, and leaving the volume of their manufacture to the discretion of the general public, who are able to have their precious metal assayed, coined, and returned to them free of charge.

The question as to which precious metal is the more suitable for currency purposes has been a source of much trouble in the past. Both metals have been used simultaneously almost from the dawn of history. The constant changing of the legal ratio of silver money to gold money by the monarchs of the Middle Ages (generally with the object of attracting the more precious metal) caused continuous ebbs and flows, now of this metal, now of that, at one time into Kingdom A, at a later into Kingdom B, and so on. Not until the appearance of Lord Liverpool's celebrated "Treatise on the Coins of the Realm" was a method of overcoming this difficulty decided upon. Lord Liverpool's suggestion was that England in future should use only gold money as legal tender to an unlimited amount, and that silver coins should thenceforth serve simply as tokens representing fractions of the gold coins. By giving these tokens a monetary value somewhat above their current value as silver all risk of their being melted down and exported would be avoided. This novel idea was put into practice in 1816, and is the basis of Great Britain's currency system at the present day. Its success attracted universal attention. Portugal followed suit in 1854,

Germany in 1871-3. About the same time Holland, Belgium, Sweden, Norway, Denmark, and the United States of America also discarded silver and established their currency systems on a gold basis. Although France, Italy, Switzerland, and Greece were not at the moment prepared to admit the soundness of the anti-silver currency legislation, they deemed it expedient in self-defence to do as their neighbours had done, and they accordingly closed their mints to the white metal in 1878.

The result of this extensive demonetisation of silver was an extraordinary divergence in the relative values of the two metals. To the peoples of the West silver appeared to be losing value every year. To those living in the East and other silver-using portions of the earth gold, on the contrary, seemed to be steadily rising in value. This latter was in truth the case. It was gold which, owing to the greatly increased demands for it for monetary and other purposes, steadily appreciated, not only in relation to silver but to all other commodities. The great financial interests of London, however, resolutely shut their eyes to the true bearings of the situation, and, ignoring the fact that the British Empire was more interested in the welfare of silver than any other nation (having larger dealings with silver-using peoples than any other country, and being itself one of the largest producers and consumers of the white metal in the world), flatly declined to countenance any international arrangement whereby silver might be re-installed as a full-tender monetary instrument. The result of this lamentably short-sighted policy was to force the Government of India, against its own convictions, to enter upon a currency policy everywhere opposed by disinterested witnesses, condemned by economists, and three times rejected by previous British Governments. This policy was simply to artificially enhance the value of the rupee by restricting its manufacture. In this way it was hoped *inter alia* that the sixteen millions of sovereigns which the

Government of India had to purchase annually in order to meet their home liabilities might be procured at a less cost in rupees than was then possible. Of course by creating a partial rupee famine it was practically certain that the value of the coin could be increased. At the same time, the increase would involve, not only (1) an artificial augmentation in the power of the public instrument of purchase, but also (2) an artificial distortion in the measuring function of the public measure of value, (3) a similar distortion of the public store or reserve of value: in short, a wholesale violation of the fundamental principles upon which all modern monetary systems are based. Little wonder that the closing of the Indian mints to the free coinage of silver raised such a storm of protest. However, the new policy having been decided upon, the voice of criticism was temporarily hushed. It was well known that this last blow to rational currency reform was in reality delivered, not by the officials responsible for the Government of India but by the financial magnates (*i.e.*, gold moneylenders) of the City of London. It was felt to be hopeless to protest further against a line of policy which had commanded such powerful support, and the new development in the history of the rupee was watched with considerable anxiety. Let us recall how Government has dealt with this currency monster with which it found itself handicapped.

* * * * *

II.

The policy initiated by the closing of the Indian mints to the free coinage of silver was based simply on the law of supply and demand. If supplies be greater than demand, prices fall; if demand be greater than can be satisfied by current supplies, then prices rise. The annual returns of the oversea trade of the continent of India showed quite clearly that there was every probability of exports

exceeding imports, and consequently every likelihood of a steady demand for rupees to pay for those excess exports. As the Secretary of State was the only official source from which rupees could be procured, obviously it was only a matter of time for him to be able to command his own price for his rupees. We write "official source" because from time immemorial the people of India have been in the habit of importing the precious metals. By continuing to import silver and gold it was still possible to procure rupees from the reserves of the public. One of the objects of the new currency policy being to introduce a gold standard with, if possible, a gold currency, there seemed no reason to interfere with the inflow of gold into India, although to a small extent it might check the Secretary of State's policy of so restricting the supply of rupees as to enable him to raise their value. The case of silver, however, was quite different. The peoples of India were extensive users of silver for ornamental purposes, and they were accustomed to procure their silver largely by melting down rupees. If the inflow of silver were checked, the people would continue to melt down rupees as before to satisfy their wants, and that scarcity of rupees—that state of the market where the demand was greater than the supply—that condition, in short, upon which the Secretary of State depended for the success of the new currency policy, would be brought about with the utmost possible expedition. Obviously, from the point of view of Government manipulating the market for rupees by restricting their supply, some check ought to have been placed on the inflow of silver—the metal which (in the eyes of the Secretary of State and his advisers) was the root cause of all the currency trouble.

But there was another and more cogent reason why the (practically) free inflow of the white metal should be checked. We have said that the new Indian currency policy violated the fundamental principles upon which all good monetary systems

are based, in that it deliberately engineered a distortion of the public measure of value and of the public store or reserve of value. It might be thought that those responsible for the management of the new currency system would endeavour as far as possible to mitigate the admitted evils of that system. It was well known that the peoples of India were in the habit of hoarding silver, and that as long as any one could remember every tola of silver so hoarded was the equivalent of one rupee. To artificially raise the value of the rupee without at the same time similarly raising the value of the stores of silver within the country would be simply to deprive the masses of the people of a portion of their reserves—it would be, in short, a return to the practices and the morals of the Middle Ages. Moreover, to permit the ignorant millions to replace such coined rupees as they held in store by reserves of a metal that Government were themselves demonetising (*i.e.*, depriving of a portion of its storing or reserve value) would be simply to aggravate the evil. Obviously, moral principle (to make no mention of political expediency), as well as ordinary business precaution, demanded that the inflow of silver, after the closing of the mints, should receive special treatment. Amazing as it may seem, nothing was done. Government not only allowed tons of silver to flow in unchecked, but they themselves actually proceeded to coin a lot of this silver, thus swelling the supplies of the rupees upon the restriction of which the success of the new currency policy depended!

To inaugurate the new currency system in such an extraordinary manner could hardly be described as happy management. Strangely enough, this curious sacrifice of business methods and monetary principles has exhibited itself again and again. The ordinary man of affairs would imagine that if Government wanted to raise the gold value of the rupee to 1s. 4d., the first thing to do would be

to say so, to issue an official notification stating the fact, intimating that the Secretary of State's price for rupees was 1s. 4d. each, and that no rupees would be sold at less than this price. Not a bit of it! After many months of uncertainty, Government cut its own throat by solemnly announcing that it was not holding for any minimum, but that it would consider all offers for rupees "on their merits"! Of course, this amazing announcement created the utmost consternation in all quarters, and the gold price of the rupee quickly fell by nearly 20 per cent. Astounding as it seems to every man of business, the Secretary of State has never to this day said: "The object of the present currency management is to keep the rupee at 1s. 4d. I hold a monopoly of the manufacture of rupees and I shall not sell at anything less than 1s. 4d." In the absence of any such a definite statement of policy, the public never know what the Secretary of State may do next. He quite unnecessarily let the rupee down to 1s. $3\frac{11}{16}$d. in 1907, and he may do so again. Such singularly unbusinesslike management is entirely beyond the comprehension of the man in the street.

The next matter to which it is necessary to refer is the Gold Standard Reserve. By omitting to control the inflow of silver and so ignoring its effect upon the laws of supply and demand in reference to the rupee, Government found that they were not producing that squeeze for rupees upon which the ability of the Secretary of State to raise his price to 1s. 4d. depended. Accordingly in 1898 the Government of India decided to take action, and a proposal was made to melt down up to twenty-four crores of rupees (rupees, be it noted, which Government had themselves been manufacturing and putting into circulation *subsequent to the closure of the mint!*). Although the proposal was in a sense quite logical, revealing as it did a tardy recognition of the principle upon which the new token rupee was based, it was, nevertheless,

immediately condemned by the various Anglo-Indian Chambers of Commerce. It served, however, to concentrate attention upon the extraordinary management of the Indian currency system, and a Committee of Inquiry was appointed. To this Committee Mr. Lindsay, of the Bank of Bengal, and Professor Dunning Macleod, the eminent authority on banking and currency (who stated that the Government of India had already perpetrated "every species of error"), submitted plans for putting the Indian currency system into shape. These plans were largely adopted by the Committee. One of their features was the accumulation of a stock of gold sufficient (1) to relegate the rupee currency to a subordinate position and (2) provide for gold remittances to Europe in the event of the balance of trade, &c., turning against India. The Committee further recommended that the profit on the coinage of new rupees should be kept IN GOLD as a reserve for practically the same ends. The subsequent history of this gold reserve is fresh in the minds of all. Just as before the sitting of the Fowler Committee, Government's management of the Indian currency seemed to be subject to influences outside the ken of both economists and practical business men, so, too, in recent years the management of the Gold Standard Reserve has been inexplicably erratic. Although the Fowler Committee, and apparently everybody else except the Secretary of State's advisers, have insisted on the Gold Standard Reserve (or, at any rate, the major portion of it) being held IN GOLD, the authorities decided that investments in silver, in sterling securities, and in Indian railway enterprises were equally desirable, or if not equally desirable, at any rate, politically expedient. Protests by Press and public, Chambers of Commerce, and others interested in the welfare of India were unheeded, till the Gold Standard Reserve at length arrived at its present anomalous condition. The situation is so transparently unsound and unsatisfactory that there is

hope that Government will before long listen to the protests that have reached them from all quarters, and will substitute gold for silver and paper, and will, moreover, store some of that gold in India.

Space will not permit me to review in any greater detail the peculiarities of Government's management of the Indian currency since the closing of the mints. For convenience' sake, however, I will summarise the fourteen leading points wherein the actions of Government have been open to grave objection :—

1. 1893.—Omission to state specifically the line of policy to be adopted—*i.e.*, that Council drafts would not in future be sold below, say, 1s. 4d.
2. 1893.—Omission to control the inflow of silver by imposing of a high duty.
3. 1893-4.—Continued heavy coinage of rupees, although the gold standard scheme depended for its success upon the restriction of the rupee currency.
4. 1894.—Sudden decision to sell Council drafts for what they would fetch—collapse of the rupee to almost 1s. 1d.
5. 1896.—Release of more rupees—two crores—by the investment in securities of a portion of the Paper Currency Reserve.
6. 1898.—Rejection of the only sound and permanent solution of the silver problem when France and the United States might possibly have recommenced the free coinage of silver had India agreed to be a party to an international agreement for the establishment of bimetallism.
7. 1898.—Proposal to melt down twenty-four crores of rupees, money being so scarce in some parts of India that loans on gilt-edged securities were almost unobtainable at any price !
8. 1901.—Abandonment by Government of the

effort to put sovereigns into circulation after too brief a trial.

9. Investment of a large portion of the gold reserve in sterling securities, and subsequently a portion in silver.

10. 1905-8.—Heaviest coinage of rupees on record—over sixty-two crores of rupees—much in excess of the country's requirements, which should have been satisfied as far as possible by importations of sovereigns. Consequent distortion of the public measure of value and rise in prices. Government and others forced to pay "grain allowances."

11. 1907.—Diversion of a portion of the Gold Standard Reserve (say, half-profits on coinage) to railway construction.

12. 1907.—Failure of Government promptly to release gold for home remittance—loss of public confidence and decline of the rupee to 1s. $3\frac{11}{16}$d.

13. 1908.—Proposal by Government to release another two crores of rupees from the Paper Currency Reserve, notwithstanding that the rupee currency was obviously redundant and prices now at an extraordinarily high level.

14. 1909.—Demand of the Bengal and other Chambers of Commerce for a Commission of Inquiry. Reply of Government that "the one thing required is that the Indian currency policy should be allowed to settle down into regular habits."

Before the public can assent to this settling-down-into-regular-habits proposal, it is necessary to know what Government's currency policy actually is. Although there can be no two opinions as to the correct course from an economic point of view, the experiences of the past fifteen years are not calculated to inspire confidence that this course will be followed. The Lords Commissioners of the

Treasury, in a letter to the Secretary of State in Council, November 24, 1879, referred to the repugnance with which all civilised nations regard a "managed" currency. Such management, we are told, exposes the Government which undertakes it to "very serious difficulties and temptations." The Government of India have, unfortunately, proved no exception to this very accurate generality, as our brief review of the past fifteen years' management clearly indicates. Before going any farther, it is essential that Government should take the public into its confidence, and state clearly what its currency policy really is and how it proposes to carry out that policy.

So far the criticism offered has been mainly of a destructive character. I now propose to indicate the line of policy which the interests of the great mass of the peoples of this country demand should be adopted. I shall at the same time reply to the arguments of Bombay bullionists and others who may be personally interested in a continuance of the present indefensible state of affairs with regard to silver.

* * * * *

III.

In view of the facts that the people of only three countries in the world can be said to be using gold freely for their daily currency requirements—England, France, and Germany—that most other countries—indeed, the great mass of the inhabitants of the globe—are accustomed to, and are satisfied with, silver (supplemented by paper) as their chief monetary instrument, and that they will, moreover, undoubtedly continue to use annually increasing quantities of this metal in the immediate future, it is quite obvious that a permanent solution of the silver and gold money problem is not to be found in further attempts to demonetise the white metal. For the great mass of the world's popula-

tions silver makes quite as good a purchasing and measuring instrument, quite as efficient a reserve and stimulating power, as gold. These are facts to which we cannot shut our eyes. Then, again, there are many who fear, and not without good reason, that the relative of cheapness with which monetary functions are now performed by aid of silver is a source of great political danger to the West in that the peoples of the East—of China particularly—may before long be able by the help of cheap silver to undermine Europe's long-standing economic pre-eminence. Be this as it may, silver money will certainly continue to be used for many centuries to come. All which being so, it is desirable that every effort should be made to fix the ratio at which the two metals shall be exchanged for monetary purposes. The only rational and practical method possible is by international agreement between the chief countries using both silver and gold for their currency systems. Any other method can only be local and temporary in character. This fact is recognised, I believe, by all up-to-date students of modern monetary problems. "An international agreement for the free coinage of both silver and gold and for the making of them full legal tender at a fixed ratio," wrote Sir David Barbour in his Minute to the Government of India's Dispatch of June 21, 1892, "would be far better for India, and for all other countries, than the establishment [in India] of the single gold standard." This statement undoubtedly exhibited the scientific and most advanced view, and represents to this day the one and only sound and permanent solution of the silver and gold money problem.

Until the great gold moneylenders of London, Paris, and Berlin take the same statesmanlike view of the world situation, however, India must continue on the gold standard tack. Recognising this fact, and having cast up our reckoning, let us now attempt to define a course for the immediate future. The

development to be aimed at is a gold standard with as much gold currency as possible ; the underlying principle by which this end is to be attained, the application of the law of supply and demand to the issue of new rupees ; and the best practical mode of putting this principle into practice, to interpose as little "management" as possible, but, the situation having been defined by legislative enactment, to leave the currency to be worked as nearly automatically as possible by the public themselves. The situation is a little complicated by the annual liability of £16,000,000 to £18,000,000 in gold which India has to pay for services rendered by and from the United Kingdom. That India's exports will normally on the average exceed her imports is practically certain. That the excess will always amount to over £18,000,000 a year is by no means certain. It is essential, therefore, that there should be a large stock of gold available in circulation in India and also in the Gold Standard Reserve, so as to enable a temporary adverse balance of trade, with its probable ebb of gold from India, to take place without jeopardising the whole currency fabric. The first thing, then, to be done is to accumulate that gold. And it should be everywhere recognised that we cannot have too much of it.

We are now in a position to commence to outline the details of a definite currency scheme for India. Taking each step in its natural sequence, the proposal is as follows :—

1. The Secretary of State should forthwith officially notify that he is no longer prepared to consider offers for rupees "on their merits." In other words, an official minimum and maximum of 1s. 4d. should now be declared, so that all the world would know that the rupee could not fall below or rise above 1s. 4d. owing to uncertainty as to the Secretary of State's weekly policy. It is incomprehensible why such a notification has not been issued long ago. The Secretary of State holds a practical monopoly of rupees which enables him

to command his own gold price for the coins. His duty is to keep the rupee at 1s. 4d. Fluctuations in foreign exchanges consequent upon the daily flow of remittances in this and that direction are understandable and unavoidable. Fluctuations arising out of the arbitrary decision of an official to accept week by week such price as he thinks fit for the rupees he has to sell are mischievous and intolerable. They often inflict losses upon the general public without rhyme or reason. The Secretary of State's price and the amount of rupees he proposes to sell each year ought both to be fixed and for twelve months, at any rate, unchangeable. The price should be 1s. 4d.; the amount for sale —the figure entered in the annual Budget—let us say, £17,000,000. The Secretary of State should as far as practicable sell this quantity as demanded till the whole sum was completed. Thereafter no more sales would be made that year, and the public would have to ship specie or bullion in adjustment of trade balances in exactly the same way as every other country in the world has to do at present. In this way the management of the Indian currency would approach as nearly as possible those automatic conditions which are a distinguishing characteristic of every good monetary system in the world.

2. Silver being the officially accepted *fons et origo mali*, obviously demands special treatment. Against the competition of silver the Secretary of State needs to be protected by the imposition in India of a high import duty on the white metal. Ordinary business considerations demand that this precaution be taken. A second and more cogent reason why a special duty should be imposed is that an artificial augmentation of the value of the rupee means a corresponding depreciation of the people's reserve stores of silver. To deprive the public by legislation of a large portion of their savings would be an act of injustice so gross as to bring upon the Government responsible for it the condemna-

tion of the whole civilised world. A heavy import duty on silver therefore *must* be imposed if the policy of artificially enhancing the value of the rupee be accepted. The proceeds of the duty might be carried in gold to the credit of the Gold Standard Reserve. Of course such a duty would meet with considerable opposition in Bombay, where the interests of silver-dealers and mill-owners might be temporarily affected. But local interests should not be allowed to prevail against the rights of every individual in India who possesses a family reserve of silver, or against the businesslike development of a currency policy designed to benefit, not one or two classes of traders in the capital of the Western Presidency but the interests of India as a whole. Two of the former (Mr. Dadiba Merwanjee Dalal and a "Bombay Bullionist") have recently written to the *Times of India* condemning the idea of a heavy import duty on silver. It is interesting to dissect the arguments employed by these silver-dealers. Mr. Dalal bases his objection on the bald assertion that: ". . . our far-sighted bankers and bullion-dealers do not believe that the delicate mechanism of exchange should be continuously disturbed." No doubt. Turning to one of the said bullion-dealers for a reasoned explanation of this belief, we find it in the following two arguments employed by "Bombay Bullionist" in the *Times of India* of January 24, 1910. Briefly summarised, the arguments are as follows: (*a*) *The financial argument*—Heavy imports of silver do not interfere with the Secretary of State's sales of rupees, except when they do. ("In years of scarcity, no doubt, the sale of Councils has been interfered with".) (*b*) *The moral argument*—Although ". . . a grievous wrong was done to the ryot when the mints were closed," it was "some compensation" to him to be permitted to buy—with our friendly bullion-dealer's assistance—as much cheap silver as he wanted.

With regard to the financial argument, the London

Times of December 31 last (Financial and Commercial Supplement) assures us that the " . . . insatiable demand for silver in India aggravates the exchange problem, and last year was a source of grave embarrassment" ; whilst Messrs. Pixley and Abell's Annual Circular for 1909 enables us to understand exactly why these imports of silver were a source of such grave anxiety. They amounted to the equivalent of about £6,750,000. Moreover, this huge figure was actually exceeded in 1908! To say that importations of silver amounting to over one-third of the value of the rupees that the Secretary of State offers to sell has no effect upon the market demands for those rupees is to run counter to one of the most obvious and glaring facts of the Indian currency situation. With regard to the moral argument it amounts to this : Having by a stroke of the legislative pen deprived scores of millions of the poorer classes of the public of a substantial portion of their accumulated savings, "compensation" is afforded to them by permitting them to buy in their ignorance a lot more of this same demonetised, depreciating metal! This may be good business for you, O Bombay Bullionist! But where is your heart? Where is your sense of justice? No. Arguments such as these, if indeed they can be called arguments at all, only serve to bring out into stronger relief than before the hopelessness of expecting sound advice from those who are themselves interested in the present traffic in silver. No matter if silver compete with the Secretary of State and mislead him into accepting less than 1s. 4d. for his rupees—no matter if the poor ignorant country people load themselves up with a lot of metal which they are not in the least likely to be able to get rid of except at a loss no matter if illicit coinage increases in all directions (China is reported to be sending wholesale supplies of Chinese-manufactured rupees into India), still, we must not attempt to apply the one and only rational remedy—a heavy import duty on silver.

Such a course, we are solemnly told, would be "mischievous" in the extreme, and would lead to "tragic" consequences in these "troublous times." I fail to see why. Frankly, I have not the slightest belief in these vague apprehensions of danger.

3. Assuming, now, that the fact is recognised that it is not "business" to sell a public coin for which 1s. 4d. is generally understood to be the price at less, or more, than 1s. 4d., and assuming, too, that the point is also admitted that no man of commerce with a monopoly to guard would dream of permitting a department of his own establishment, as it were, to undermine his monopoly by selling against him (to make no mention of the moral principles involved), let us briefly consider the remaining branch of our subject—the Reserve Fund. We have already referred to the fact that whilst the balance of trade is almost certain to be in India's favour, it is at the same time by no means certain that the credit balance will always exceed £16/18,000,000—the sum which India pays for interest on borrowed capital and other external State obligations. Provision must therefore be made against temporary diminutions in the trade balance and possible outflows of gold, not only by establishing conditions that will encourage a steady flow of gold into India rather than silver but also by the methodical accumulation of a substantial gold reserve. Lord Curzon once thought that £10,000,000 would be sufficient. Subsequent experience has led official opinion to increase the figure to £25/30,000,000—*i.e.*, sufficient to permit the Secretary of State to draw upon the reserve for one-half of his gold obligations for three successive years. In framing these estimates the economic factor alone has been considered. With European armaments increasing at the pace they are, it would be folly to overlook political considerations. A great European war, especially if the British Empire were involved, would create a panic in financial circles. At such a time the last

thing we should wish to see would be a sudden collapse of the rupee and the bankruptcy, not only of the Government of India but also of half the Anglo-Indian mercantile community. It is absolutely essential, therefore, that we should accumulate a very substantial gold reserve. France, whose huge, artificially valued silver currency places her in a somewhat similar position to India, holds at the present moment over £139,000,000 in gold in her chief bank. Whilst there may be no good reason at present for attempting to approach this very remarkable figure, it is quite obvious that former estimates must be revised, and that the basis of three times one-half the Secretary of State's annual drawings must be materially expanded.

Two contingencies have to be provided for—the economic and the political. The economic includes the possibility of (*a*) the Secretary of State finding no buyers of rupees for a long period, and (*b*) the public at the same time desiring to transfer redundant monetary supplies from India to Europe. The political embraces not only (*c*) wars and rumours of wars, but also (*d*) the reluctance of the financiers of London to hold reserves of gold adequate to the colossal business transacted at and with the heart of the British Empire. The folly of placing all one's eggs into one basket has become proverbial. Why, then, locate the whole of India's reserve of gold in a financial centre that has for years been recognised by most monetary scientists to be already under-supplied with reserve stocks of the yellow metal? In the case of India the inevitable has, of course, occurred. India's gold has disappeared, and the Indian currency system now depends upon bundles of paper securities that in the event of one of the contingencies against which they are supposed to protect us would assuredly prove next to worthless.

The Gold Standard Reserve must be kept in gold and nothing else but gold. Any substitute for the precious metal is a delusion and a danger. (Can

we imagine France, or Germany, or Russia investing their gold reserves as the Secretary of State for India has done in Irish Land Stocks or Transvaal War Loan Securities !) Moreover, a substantial proportion of that gold—£15,000,000 to £20,000,000 —must be held in India. Were the financial conditions of London and the political conditions of Europe other than they are, these figures might be halved. As it is, there is no alternative. The gold must come out to, and be stored in, India, where it will form a very valuable reserve, not only for this country but for the whole Empire. And as this gold is urgently wanted the Secretary of State might budget for two or three millions sterling each year. The balance can be supplied from the profits of rupee coinage and from the increased duty on silver.

It is not supposed that this demand for a definite currency policy (as nearly automatic as circumstances will permit) will meet with any support from those who are themselves interested in the existing system of currency management. History informs us quite clearly of the part that goldsmiths, silversmiths, bullion-dealers, bankers, and money-lenders—great and small, national and international —have played in the development of the currency systems of the world as we find them to-day. The great financiers are of necessity extremely conservative. They would much rather

> "*. . . bear those ills we have*
> *Than fly to others that we know not of.*"

There are reasons, however, and very good reasons, why the public at large should hold a different view. Some of these I have endeavoured to put forth in the previous pages. It now remains to be seen whether the seed will bear fruit.

APPENDIX C

WHAT INDIA WANTS

The following extracts are from the Annual Addresses of the Chairman of the Karachi Chamber of Commerce :—

" While improvements and developments calculated to encourage and facilitate trade are taking place on all sides, we must not omit to keep watch on one of the most important essentials to our well-being—a pure atmosphere ; I mean, of course, a sound financial atmosphere. To the air we breathe, though of vital importance to us, we give but very little thought ; and, in the same way, we are apt to neglect the currency without which business on a large scale would be altogether impossible. For the last six months or more the rupee has been distinctly anæmic ; it has lost strength or purchasing power. Firstly, in India, it has gradually failed to command as much of the commodities of trade as before, and latterly its usefulness in relation to the sovereign has appreciably declined. This is a matter, gentlemen, to which I submit we should give anxious consideration. Since the closing of the mints the value of the rupee, both for internal and external trade, has been in a large measure artificial and dependent upon the wisdom of the Government who control its use and issue." (March 24, 1908.)

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" In the course of a few days the Associated Chambers of Commerce of the United Kingdom will

call the attention of the British Government to the recognised and constant insufficiency of the gold reserves of the United Kingdom. And they will demand that legislative action be taken to strengthen those reserves. Here we have a clue to the solution of some of our difficulties in India. The Chambers of Commerce of India must combine and insist on the objects, nature, and management of the Gold Standard Reserve being defined by statute. Under the new rules which guide the work of the Viceroy's Legislative Council unofficial members can effectively press this matter on the attention of the Government of India. I would urge that the incoming committee take this matter up without delay, as it is one of the most important to which they can give their attention. Were England unfortunately involved in a great European war our artificial rupee, under present management, might conceivably drop to eightpence or ninepence before the war was finished. That such a war is outside the realms of the possible nobody who studies European armaments for a moment imagines. Let us, then, be on the safe side and get the whole of our Gold Reserve into our own hands until the great financial powers of London are brought to see the Gold Reserve problem in the same light as the merchants of London and the Associated Chambers of Commerce of the United Kingdom." (Extract from a speech made at the Annual General Meeting of the Karachi Chamber of Commerce on February 28, 1911.)

APPENDIX D

CAN INDIA AFFORD A GOLD CURRENCY?

The following reply to the *Statist* was contributed to the *Times of India* of May 25, 1911 :—

"A little over a year ago the *Statist*, disapproving of the new duty on silver then just imposed by the Government of India, delivered itself of a tremendous fulmination, in which abuse of Government was mingled with prophecies of a collapse in silver, impassable breaks in the exchanges with China, a serious upsetting of the foreign trade of India, and general political discontent, culminating in all sorts of dire disasters and dreadful things. The public smiled. Few people in India shared the *Statist's* alarms, or believed in its weird forecasts of the future, which, as everybody knows, have been wholly and completely falsified by events. Not in the least abashed, however, by the fiasco it made of its treatment of the silver duty problem, our financial authority has once more turned its attention to Indian currency matters, and has now given the world its matured and considered views on the subject of Sir Vithaldass Thackersey's recent request that Government should take steps to initiate a separate and distinctive gold currency for India.

"The *Statist's* opinion of the whole matter can be summed up in two words—'pure madness.' Sir Vithaldass Thackersey is as mad as a 'march hare.' And as for the Finance Minister's promise to consider the question in consultation with the India Office, 'it is difficult to imagine anything that

could prove more conclusively Sir Guy Fleetwood Wilson's unfitness for the post he occupies' (*Statist*, April 15, 1911). If, curious to understand the reasons for this emphatic outspokenness, the reader wades through the four turgid leading articles in which this question of a gold currency for India has just been treated by the *Statist*, he will discover that :—

(*a*) 'India is one of the poorest portions of the whole earth.'

(*b*) Gold is therefore too expensive, too wasteful, too cumbersome, and too inconvenient for India, for whom it would be a 'disastrous luxury.'

(*c*) The adoption of a gold currency in India would be a further blow to silver, depriving the poorer classes (who have hoarded silver) of a portion of their savings, and so 'increasing poverty and making unrest seriously formidable.'

"There is something very reminiscent of the *Statist's* prophecies of a year ago in this bogey of unrest and incipient mutiny owing to the Government of India persisting in a course of which the London financial organ does not approve. Strangely enough, it does not seem to have occurred to the *Statist* that by a mere stroke of the legislative pen—by simply raising the import duty on silver another 15 per cent. or so—all risk of injustice to the old holders of hoarded silver can be at once removed. The argument that gold money is 'too inconvenient' and 'too cumbersome' is not likely to carry much weight with peoples who have for centuries past handled the still more inconvenient and cumbersome white metal. To emphasise this point, however, and also that of the 'wastefulness' and 'expensiveness' of a gold currency, the *Statist* does not hesitate to assert that sovereigns 'are very little in use' in England—cheques and banknotes being the real currency. The same with the United States, France, Germany, and so on. True, the leading nations of

the world 'find it necessary' (to quote our critic's own words) to accumulate great gold reserves; but, asks the *Statist*, is this any argument for 'forcing' gold upon 'an exceedingly poor country like India?' As a matter of fact, whilst England's gold reserves are smaller than those of any other great nation, gold money is more in evidence in England than in any other gold-using country in Europe or America. In this connection it is interesting to recall exactly what other nations have been doing in the matter of building up their gold currencies. Here are the reserves of gold held by the treasuries and national banks of some of the chief countries of the world on December 31 last:—

	£
The United States	263,241,000
France	131,177,000
Russia	130,476,000
Austria	55,023,000
Italy	48,363,000
Argentina	37,033,000
Germany	33,052,000
Australasia	31,356,000
England	31,356,000

It will be seen from the above that the rest of the world does not seem to attach much importance to the *Statist's* expensive-wasteful-inconvenient-cum-cumbersome argument! Why, then, should we? As for our financial pundit's reiterated, not to say insulting, references to the extreme poorness of this Dependency, one is almost tempted to retort by producing figures revealing the poverty, dirt, and degradation in which large masses of the populations of Western nations habitually live. It will be better, however, to remind the *Statist* (as I had occasion to remind the delegates to the Montreal and Sydney Conferences of Chambers of Commerce of the Empire in 1903 and 1909) that next to that of the United Kingdom the external trade of India is by far the largest of any portion of the British Empire;

and further, that, taking the whole of India's trade, internal as well as external, the total, no doubt, exceeeds that of the whole of the colonies, dependencies, and possessions of the British Empire put together. So much for the 'poorest portion of the whole earth.'

"So far, then, the *Statist* has not made out much of a case for preventing India from taking her stand, so far as her currency is concerned, amidst the leading nations of the world. We turn back, therefore, to the columns of the *Statist*, in case we may have missed some vital point in our critic's case. Possibly we find the missing clue in its issue of the 15th ult. Here we are told that the introduction of a gold currency into India would not only 'enormously injure India,' but 'it would be a very serious matter for the rest of the world.' Ho! ho! We must follow this farther. 'India last year took for trade purposes, for ornaments, and for hoarding, as nearly as can be estimated, about eighteen millions in gold. If she is to continue that practice, and is to add to it an immense accumulation of gold for coinage purposes, what will be the result upon the money markets of Europe and America?' Here is a new line of argument. Can it be that we have at length found the true source of the *Statist's* anxiety? Let us read a little farther: 'We grant that the Indian Government is not bound to look after the interests of other countries. Still, the Indian Government draws its power from the United Kingdom, and unless the interests of India really require it, the Indian Government should do nothing to injure the United Kingdom. But it clearly would injure the United Kingdom if the Indian Government were to adopt a policy which might mean the absorption by India for coinage, trade, ornaments, and hoarding purposes of gold to the amount of from 50 to possibly 100 millions sterling a year.'

"Here, then, we have the explanation of all this pother regarding Sir Vithaldass Thackersey's pro-

posal to initiate an Indian Gold Currency. Truth will out—even in the columns of the *Statist*. It is not the welfare of the 315 millions of this country that has moved the London financial organ to all this nauseating hypocrisy about gold being so 'expensive' and 'cumbersome,' but a craven fear lest poor, poverty-stricken India should forcibly extract from rich, all-powerful England so much of the glittering yellow metal as to cause great London, with its majestic reserves of gold, some trifling inconvenience! What are we to say of the *Statist* now? Let us not, at any rate, deceive ourselves as to the facts of the situation. This childlike dread of India commencing to absorb gold in large quantities is by no means confined to one or two newspapers. I was talking the other day to a prominent Anglo-Indian banker on this very subject, and he made no secret of his thoughts. If he had his way he would enact a law forthwith preventing the peoples of India handling a single sovereign unless they deposited their sovereigns in a bank (his bank for preference, I presume!). Then, again, at the Annual General Meeting of one of the principal exchange banks, held in London a few weeks ago, the Chairman expressed a hope that the world's production of gold might largely increase if India was going to commence importing gold. (And that, too, in spite of the fact that the world's output of gold has now reached such a phenomenal figure that the value of gold all the world over is rapidly dwindling.) Even the Secretary of State has been infected by this same nervous malady, and, treating his annual budgets as so much wastepaper, he has, during the last two years, transferred from the treasuries in India to the coffers of his bankers in London some EIGHTEEN MILLIONS STERLING in excess of his original estimated requirements, thus checking, as far as he was able, the natural flow of gold to India; and with the result that, not only has all the gold in our Gold Standard Reserve practically disappeared from India, but over six millions of

our Paper Currency Reserve—a paper currency that only circulates in, and is only redeemable in, India—has also been hurried off to London and invested in depreciating consols, much to the relief of the London money market. The latest *ballon d'essai* is an outrageous suggestion that Government should impose a stiff import duty on gold coming into India—a kind of duty that has never even been dreamed of, much less imposed, since the world began.

"It is to be hoped that Sir Vithaldass Thackersey, Sir Guy Fleetwood Wilson, and, indeed, all who realise the danger to the Empire arising from the inadequate reserves of gold at present held in London, will now set their teeth firmly and demand that the present scandal shall cease. India has been made the plaything of the London money market for far too long. The people have lost confidence in silver, and still more so in their sadly mismanaged rupee. They do not wish to find themselves the subjects of any more tinkering experiments with their monetary system. They now demand the same kind of currency as all the other most advanced divisions of the British Empire. They want a gold currency, and they are certainly fully entitled to this up-to-date monetary equipment—just as much so as the United Kingdom itself, and far more so than Canada, Australia, or South Africa. Moreover, India, infinitely richer than any other of the King-Emperor's oversea possessions, can very easily afford to develop its monetary system on the basis of a gold currency—a basis that has already been successfully employed in India—the basis that has commended itself to the rest of the civilised world, the only basis that can free us from the perpetual thraldom of the dangerously powerful money markets of the West. Happily enough, no time could be more appropriate than the present—on the one hand, India bursting with advancing prosperity ; on the other, an output of gold from the mines of the world of such phenomenal magni-

tude (more than three times as great as anything known at the period of the Californian and Australian gold discoveries) as to produce a marked fall in the value of gold—*i.e.*, a serious rise in gold prices all over the world. In such circumstances it becomes the duty of the Supreme Government to encourage the further use and consumption of gold in every possible way. So—Forward, Sir Vithaldass! The hour is propitious, and you have all who love their India behind you. The Bombay Chamber of Commerce uttered but the plain and unvarnished truth when it put forth the indignant protest an extract from which appears at the head of this article. No doubt the Bombay mercantile community are of the same opinion still. Many other important commercial bodies most certainly are. Moreover, sovereigns are daily becoming more popular all over the continent. They are being sent up-country in thousands in payment of produce. They are met with in circulation in many strange out-of-the-way places, and they are being returned to Government in payment of revenue, thus proving their acceptability to large sections of the people. The King-Emperor, on the occasion of his forthcoming visit to India, could not more appropriately signalise his recognition of the marvellous economic progress made in recent years by this great Dependency than by ordering a recommencement of the coinage in India of the celebrated gold mohur. The new George the Fifth gold mohur might be of exactly the same weight and fineness as the British sovereign. If a smaller gold coin be also required, George the Fifth pagodas of exactly one-half of the value of the new gold mohur could also be coined. There can be no doubt that the revival of the pagoda would be immensely popular in the south of India. Here, then, we see a possibility of an Indian gold currency that, whilst recalling in a practical and acceptable form memories of India's monetary systems of bygone years, will at the same time add

incalculably to our economic and political strength, and, incidentally, to the economic and political strength of the whole Empire. Is it too much to hope that the joint-stock bankers of London will see the matter in the same light?"

Postscript.

In fairness to the *Statist*, it must be noted that a change of opinion has just manifested itself in the Editorial columns. In its issue dated March 30, 1912, page 671, appears the following :—

". . . There seems no longer room for doubt that the opinion of the well-to-do classes in India in regard to the currency is rapidly changing ; that, just as throughout Europe and America gold has come to be regarded as much superior to silver, so the well-to-do classes in India are beginning now to take the same view. That being so, we see no reasons why India should not coin her own gold pieces instead of withdrawing them as and when she requires from the Bank of England. . . ."

Quite so. The *Statist*, having revised its views as to the desirability of restoring to India a gold currency, there are now grounds for anticipating that a similar change of policy has occurred in other quarters—a good omen, at last!

APPENDIX E

SHALL THE INDIAN MINTS BE OPENED TO THE FREE COINAGE OF GOLD?

The following is an extract from Sir Guy Fleetwood Wilson's reply of March 22, 1912, at the Meeting of the Imperial Legislative Council, Calcutta, to Sir Vithaldass D. Thackersey's motion that the Indian mints be opened to the free coinage of gold. Sir Vithaldass Thackersey urged the issue of a new gold coin of the value of Rs.10 :—

"The ball which Sir Vithaldass Thackersey set rolling has been in vigorous play throughout the year. No subject of a purely financial character has in my time attracted so much attention or so much skilled criticism. It has been thoroughly ventilated in the public press both in England and in India—the views of all classes interested in the subject have been received by the Government and every phase of it has been examined in full and free informal discussion. What I propose to do to-day in answering my hon. friend is to review as briefly as possible the opinions that we have collected; to examine the main arguments for and against the coinage of gold, and to remove some of the misconceptions which have grown up round the subject. As at present situated, I cannot do more, for we have still to obtain the opinions and the order of our final authority—the Secretary of State—but I am sure that in their responsible task of deciding the issues which we are placing before them the Secretary of State for India and his advisers will

be greatly helped by the proceedings of to-day. The proposal which my hon. friend wishes to revive is that which the Indian Currency Commission of 1898 recommended as part of the machinery for the maintenance of our gold standard. I need not quote the precise words of the Committee; they are found in paragraph 54 of the Report, and are familiar to all students of the subject. The proposal, in brief, was that the Indian mints should be thrown open to the unrestricted coinage of gold, on terms and conditions such as govern the three Australian branches of the Royal Mint. This proposal was cordially accepted by the Government of India, and, as Sir Vithaldass reminded us a year ago, steps were taken to give effect to it. Our preparations, however, came to an end somewhat suddenly in 1902.

"There had been much discussion on technical details, and while time was passing the agent for the Kolar Goldmines had concluded arrangements for the disposal of the gold in England. The Government of the day were doubtful whether it was prudent to pursue the scheme in the absence of any steady supply of local gold, and the Treasury at home were disposed to advise against it in the belief that India would obtain all the gold it required through the ordinary channels of import. The question was thus laid aside in 1902—no definite reasons were given at the time, so far as I can ascertain, but the reasons were those which I have now briefly described and no other. During the past ten years spasmodic suggestions had been made for reviewing the proposal, but it was not until my friend's resolution of last year that the Government of India were formally moved to review the situation and consider the propriety of reverting to the policy recommended by Sir Henry Fowler's committee. When we went thoroughly into the subject, as I promised Sir Vithaldass that we should do, it seemed to us that there had been such a change of conditions as would fully justify us in

reviving the question, and not in treating it as as a subject which had been laid aside for good in 1902. It is true that we get no good of Indian production, simply because we can do nothing with it if it is offered to us. It is also true that the sovereigns still come in freely by trade channels when the balance of international exchange is in our favour, but in other respects the position has altered greatly in the last decade. Our currency system has been through the fiery trial of 1907-8, and the need for strengthening our gold holdings has been brought home to us. Also, to the mind of many observers, what I may call the currency habits of the people are changing. Gold is being more freely taken in payment for agricultural produce ; there may be no striking increase in the active circulation of gold, but it is certainly becoming more familiar and is being more readily accepted.

"Rupees, as many believe, are being replaced by gold in hoards. Our note circulation is also making great strides. Its rapid increase, specially since the notes of the lower denominations were made universal, goes far to indicate that the people are ready for a handier form of currency than silver and for a higher unit than the rupee. All these changes in India justify us in considering again whether we should not embark on the coinage of gold. What particular coin we should manufacture is perhaps a matter of detail rather than of principle. Some authority would like to see a distinctive Indian coin, the gold mohur or pagoda ; others regard this suggestion as antiquarian rather than of practical value, and would like to see the Indian sovereign or a ten-rupee gold piece. Others, again, would be content if our mints were empowered to manufacture the ordinary sovereigns with which we are all familiar. I think myself that the balance of advantage lies in the third course ; it gives us the coin which my esteemed friend Sir Shapurji Broacha has so happily described as 'the cement

of the Empire,' and it simplifies immensely the issue of our gold in international trade. For the purpose of discussion, then, I assume that we shall at the outset at least coin sovereigns, if we are allowed to coin gold at all. The proposal before us is thus in its simplest form that one of our Indian mints should be opened to the free coinage of the sovereign on terms and conditions similar to those which control the mints in Australia and Canada. Now, since the debate of last year this proposal, simple though it is, has been subjected to considerable misrepresentation.

"It has been suggested, for example, that the scheme contemplates a large loan by us for the purchase of gold that should force gold upon an unwilling people on an enormous scale, and that we should thereby produce, as I think we should certainly do, a serious fall in the value of silver and considerable hardship to the poorer classes in India. It is also suggested that between buying gold and paying interest on our coinage loans we should be throwing away large sums of money which are required for education and for the extension of railways and irrigation, taxation would be multiplied, the gold would disappear as soon as we coined it, and our exchange position would be as bad as ever.

"The Hon. Sir Vithaldass has repudiated this description of his proposal with some warmth, and I entirely sympathise with him. No such proposal was ever dreamed of by any sane and responsible man in this country. There has never been any intention of borrowing, or of buying gold, or of forcing it upon the people, or of coining a single sovereign, except from bullion which is brought to us voluntarily for the purpose. The proposal, which I have already described as simple and unambiguous, is merely to open a gold mint on a small scale with a gold refinery attached to it, so that we may be able to handle either raw gold from the mines or ornaments and other alloys that may be offered us. This being the proposal which Sir

Vithaldass had in mind, and which was also in my mind when I promised to consider it, let us examine the arguments of honest critics for and against it. I take first the arguments against it. They are numerous, but I think they may be suitably classified into three sets of objections, viz., that a gold coinage is unnecessary, that it would be ineffective in support of exchange, and that it would be wasteful, or even harmful. The first of these objections is the argument that gold already comes in freely from Australia, Egypt, and elsewhere, and that there is no necessity for adding to it in this country.

"Support is given to this objection by that very large accumulation of sovereigns which has grown up in our currency reserve during the last year and a half of busy trade; it is also argued that with a sufficiently strong gold reserve in London, and a sufficiently strong silver reserve in India, we could get along without a visible gold currency at all. This view is taken by many who believe that the scheme known as the Lindsay scheme, after the late Mr. A. K. Lindsay, the distinguished economist and banker of Calcutta, is the solution for all currency difficulties in a silver-using country. I think that these objections merit the most careful consideration. I do not say that they are inseparable, but they are reasonable and have the weight of high authority behind them. The second set of objections are based upon the view that a gold coinage would have no influence in supporting exchange, for the simple reason that at a time of crisis the sovereign would disappear, it would stand at a high premium, and there will be no persuading the people to release their hoardings of it for the purposes of export. Until the sovereign becomes much more familiar and enters much more largely into active circulation I think this objection is largely true. The question is whether it is advisable to take means to increase the circulation in order to prevent the wholesale disappearance of the sovereign when exchange shows signs

of weakness. The third and most uncompromising group of objections to our gold currency comes from those who consider that the minting of gold in India would be wasteful, expensive, and harmful. Many competent observers consider that it would be wasteful because our new sovereigns would be melted, or would disappear into hoards as soon as they are issued. I do not think my hon. friend shares this view, and I believe that experience alone will prove its truth or its falsehood.

"I would only remark that the hoarding and the melting of rupees was a constant trouble in the days when our mints were open to silver, and I personally believe that if sovereigns can be made to replace silver, or ornaments, in the hoards of the people we shall have advanced a decided step in the direction, not only of greater prosperity but of great stability in our exchange affairs. Some of our other critics, however, urge that the sovereign is an expensive coin, because we get no profits from it such as we do from the rupee, and because we should have to bear the loss of wear and tear. To this objection I cannot attach very much importance, knowing as I do the comparatively small cost at which the gold currency of the United Kingdom was habilitated by the late Lord Goschen. The last argument in this group to which I need refer is the suggestion that our gold coinage would draw off a larger quantity of gold from the European markets than India obtains at present, and that consequently business and trade would suffer in the gold-using countries. This argument I must admit to be one of the most serious in the whole controversy, because, if it is true, it sets the whole of the interests of the gold-using countries against our proposal. It is a matter on which various opinions may honestly be held : whether the opening of the mint to gold would in practice have the effect of enlarging our gold imports. It would certainly have the effect of bringing in a lower quantity of bullion and a smaller quantity of

sovereigns if there were a marginal profit of the former, but would it have the effect of increasing the aggregate quantity of gold of all sorts which comes in to adjust the balance of trade? I have now stated with perfect frankness the arguments against a gold coinage for India. The arguments for such a coinage are in my honourable friend's mind, and some of them have been skilfully displayed in his opening speech.

"As I understand the position, he believes that the coinage of gold would enable large quantities of bullion which are now in the country to be converted into legal tender. He believes that with greater familiarity the sovereigns would pass more freely into active circulation. He hopes, and I also sincerely hope, that if this consummation is reached it will diminish the pressure upon us for the coinage of fresh rupees and simplify our exchange difficulties. These in their turn are weighty considerations, and they are considerations which affect the practical outlook of the business man, who does not delude himself into the idea that the mere opening of the mints to gold would immediately provide a door for the export of superfluous currency in the form of sovereigns when exchange goes against us. I do not myself see any near prospects of that measure of assistance, but I readily admit that the coinage of gold, if it leads to a substantial and growing increase of the active circulation, will carry us some way in that direction and consequently in the direction of greater security and stability. I have now, as I undertook to do, laid before the Council the *pros* and *cons* of this important and attractive subject. As I explained, I can at the moment do no more because the whole question, with the views of the Government of India upon it, awaits the final decision of the Secretary of State. If his decision meets the wishes of my honourable friend, no one will be more gratified than the present Finance Member."

The motion was withdrawn.

APPENDIX F

SHALL INDIA'S GOLD STANDARD RESERVE BE HELD IN LONDON?

The following account of the debate in Calcutta, at the meeting of the Imperial Legislative Council of March 22, 1912, when Sir Vithaldass Thackersey moved that a substantial portion of the Gold Standard Reserve be held in India IN GOLD, is extracted from the *Times of India* of March 25, 1912. The Motion was lost by one vote only : —

"Sir Vithaldass D. Thackersey then moved his resolution urging the holding of a substantial portion of the Gold Standard Reserve in gold from India. He said :—

"'My lord, all the Chambers of Commerce have times out of number demanded that our Gold Standard Reserve should be held in gold in India. They have more than once pointed out the danger of either diverting any amount of this to any other purpose or to investing it permanently in gold securities. They have further pointed out that in case of panic or war the gold may not be available to us when we badly want it, and in that case it might be difficult, if not absolutely impossible, for India to maintain a gold standard. In these days, when the sensitiveness of the money market has become proverbial, it is easily conceivable how great will be the loss that the people of this country would suffer, and to what great extent the prestige of the Government would be lessened, if there was the slightest reason to doubt that the gold in the Gold

Standard Reserve may not be readily available to maintain the exchange. All the labour of years in creating confidence in the outside world will be lost in a second. And for what purpose is all this risk incurred? My friend the Hon. Sir James Meston, who has always proved himself a capable and sound financier, and whose elevation to the Lieutenant-Governorship of the United Provinces is a matter of deep gratification to all of us, presented last year to this Council what he called "the other side of the shield." He said that gold was located in London to simplify the duty of the Government of India in maintaining the gold value of the rupee, as, when required to support our exchanges, it would be immediately available. It had been mentioned moreover, in the reply from the Government of India to the Bombay Chamber of Commerce, in May, 1907, that holding liquid gold in India would entail loss of interest which we at present earn by investment in gold securities. I will, therefore, with your lordship's permission, deal also with this argument. The reply to the first argument is that the location of gold in India will not at all make the duty of the Government of India any more difficult in maintaining the gold value of the rupee. The call on this reserve is made only when it is required for export, and it will be as easy for the Government of India to deliver gold in India to those who want it in exchange for rupees as it is easy for the Secretary of State to deliver gold in London. If gold is required by the Secretary of State when he cannot sell Council Bills it can be exported almost immediately.

"'As to the second argument about earning interest, I need only repeat what has been so often and so unanimously said by all the Chambers of Commerce in India and by others who can speak with authority on this subject, that Government are taking a very great risk by this procedure. So long as things move smoothly and no storm breaks, this kind of investment may bring us some income; but

it must not be forgotten, as the Bombay Chamber of Commerce wrote to Government in 1907, that the Gold Standard Reserve is being maintained for the sake of serious emergencies, and that should such emergencies arise it might very easily happen that it will be extremely difficult to realise rapidly the securities. Indeed, the state of the money market brought about by the very emergency would probably be considerably aggravated if it entailed the realising of a large quantity of British securities, whereas if the reserve was a metallic one the position could be at once relieved. My lord, India is not the only country which has to maintain a metallic reserve of gold. The United States Treasury has the largest stock of gold held by any country in the world. On December 31, 1910, it amounted to over two hundred and thirty-three millions sterling —over eleven times our Gold Standard Reserve. Does the United States Government invest it in gilt-edged securities? In the same way France and Russia have large gold reserves—certainly many times more than our reserve. Why do they not invest them? They rightly realise that their credit and honour and existence stand upon the Gold Reserve, and they know that it may be required at any time in an emergency. I wish to speak with great respect of the Secretary of State's advisers. They are eminent men, but it is only necessary to mention the positions they occupy in the world of London finance to show that, human nature being what it is, they cannot be expected to be wholly free from a certain bias. Lord Inchcape is a director of the National Provincial Bank of England, Ltd.—a very powerful bank. Sir Felix Schuster, Bart., is a director of the German Bank of London, Ltd., and also a governor of the Union of London and Smith's Bank, Ltd. Mr. Lawrence Currie is a managing partner in Glyn, Mills, and Currie & Co.—a large and powerful private banking house. But, my lord, against the advice of these three eminent London financiers the Secretary of

State has before him the unanimous recommendation of independent experts well qualified to give sound advice on this subject, who constituted the Indian Currency Committee over which Sir Henry Fowler presided. This recommendation was to the effect that any profit made on the coinage of rupees should be kept in gold as a Special Reserve. The Secretary of State is therefore incurring a very grave responsibility in disregarding independent advice.

" 'But, my lord, this does not exhaust our causes for complaint. In addition to our Gold Standard Reserve, the Secretary of State has withdrawn eight and one-third million pounds of our Paper Currency Reserve and many million pounds more out of our Treasury balances over and above his Budget requirements. The cash balances in the hands of the Secretary of State in London in March, 1911, amounted to over sixteen and a half million pounds sterling, and this year till the 19th of February the Secretary of State has drawn four million pounds in excess of this year's requirements for home charges, and still we have six weeks to run in this financial year. What is the object in withdrawing such large amounts from India? In reply to the Hon. Mr. Armstrong's question in Simla in September last, inquiring whether much larger cash balances were now held in the Home Treasury than formerly, and, if so, the reasons for this, the hon. Finance member gave, amongst other explanations, "the heavy sales of Council Bills and Telegraphic Transfers in excess of the requirements of the Home Treasury." My lord, this explanation explains nothing. It is only a paraphrase of the question. To-day, while India clamours for money, and while the bank rate of interest on the security of Government Paper rules at 8 per cent. per annum, while the industry and commerce of the country suffer by the high rate of interest, and sometimes find difficulty in getting money at all, the Secretary of State has millions and millions of our cash invested by him at a nominal rate of interest with the London bankers

and financiers. A more unsatisfactory policy it is difficult to conceive. If even a portion of the amount lying in London had been available with our bankers, the present stringency of the money market would not have arisen and the commerce and industry of the country would greatly have benefited. Apart from the interests of commerce and industry, which must be dear to us, is it to the interest of Government itself and to the credit of India that such a monetary stringency should be allowed to happen when we have the means of relieving it? Is it to India's credit that on the security of its own promissory notes the holders should have to pay in the busy season a high rate of 8 per cent. to 9 per cent. per annum, which is more than double the rate paid by Government? How can we expect under such circumstances that Government Paper should be more popular?

" ' In England every one, from the Chancellor of the Exchequer down to the humble banker and financier, is seriously concerned about the steps to be taken to make British Consols popular. At present that is the principal topic in England. We in India export our available capital to London, and starve our banking institutions to the detriment of the popularity of our own paper. If means can be adopted by which we can prevent the enormous rise of the rate of interest in the busy season, I am sure—and that is the opinion of many bankers—that the price of Government Paper would stand at a much higher figure than now. Apart from this consideration, we have to bear in mind that this periodical tightness of the money market is a great hindrance to our industrial progress. Violent fluctuations are always to be deprecated. In Great Britain, while the bank rate varies from 3 per cent. to 5 per cent., a difference of 2 per cent., in India it varies from 3 per cent. to 8 per cent., a difference of 5 per cent. My lord, this craving for India's money in London is so great, and the Secretary of State is so much influenced by the London money

market that this Council to-day may be said to be one of the biggest financial houses in London.

"'My lord, if our Gold Standard Reserve is kept in India in gold, we may be able in times of emergency to be of service to the London money market, while under the present policy in time of emergency we may increase their difficulties by our necessity to withdraw the gold. A big money market like London will not be adversely affected by the gradual withdrawal of gold in normal times, but in times of trouble it may feel the pinch. With our gold in India, London will keep its necessary stock of gold in the usual way, and in times of trouble we can help them with our gold, which will be an extra reserve. So looking from the point of view of England itself, it is an advantage that our gold should remain in India. There is a further advantage if our Gold Reserve is in India. Government have tried to popularise currency notes and meet the wishes of the commercial communities by making universal currency notes up to the value of one hundred rupees. They have not been able to make all currency notes universal because of the difficulty of meeting the demand of coins on presentation. With a large quantity of our gold in India and distributed over all important centres, in addition to the Currency Reserve, our power of successfully meeting any demand for coins will be enormously increased. As years pass and people get used more and more to gold coins, it may be possible to make all currency notes universal. It will be an enormous advantage to trade and commerce, and at the same time it will still further popularise paper currency and largely increase its circulation. Those requiring rupees for small business will get them by tendering gold coins, just as they get small change and copper by representation of rupees. Time does not permit me to develop up this argument any farther, but I hope I have been able to show that it is to the advantage of both India and

England that our Gold Standard Reserve should be held in gold in India.'

"The Hon. Mr. Gokhale followed, and supported the resolution and congratulated the mover on his speech.

"The Hon. Mr. Ward did not propose that the whole of the reserve should be transferred to India. Sir Vithaldass's recommendation of the transfer related only to a substantial portion, and to that there could not be any reasonable objection.

"Sir G. Fleetwood Wilson said: 'I congratulate my hon. friend Sir Vithaldass on this second excursion into the regions of pure finance, and on the vigour and lucidity with which he has handled a subject of no small intricacy and difficulty. He has, as I have already said, the advantage of me in the freedom with which he can speak on subjects upon which my position, and the position of the Government of India in relation to the Secretary of State in Council, compels me to caution and even to silence. He must not, therefore, misjudge me if I cannot follow him over all the field which he has opened for us in the speech to which we have just listened. It would, for example, be wholly out of place for me to discuss his views regarding the financial advisers of the Secretary of State and the influence which they exercise on the disposition of our Indian resources. The responsibility of the Secretary of State in Council is one and undivided, and we cannot discuss his policy as if it were the policy of individuals. I can only undertake to place before the Secretary of State the expert financial opinion which the hon. gentleman represents in India, and to ask that it receive due consideration along with the expert opinion which his lordship obtains in England. Nor, even if I had the same freedom as my hon. friend, would it be possible for me in the time at my disposal to examine with sufficient care the wide variety of topics over which he has ranged. Let me take, for example, the question of our high balance-sheet. I am quite at

one with Sir Vithaldass in holding that high Treasury balances, whether held in England or in India, are in ordinary circumstances wrong and wasteful. High balances in ordinary circumstances are an indication that we have borrowed more than is actually necessary. But it would require a somewhat detailed analysis to place the Council in a position to judge whether the recent history of our Treasury balance justifies this condemnation. I should have to point out to what extent money has been accumulated in London to meet large payments for the redemption of railway debenture which are shortly due.

" 'I should have to connect our opium windfall with the India Bills, which, I hope, we are now on the eve of withdrawing; and I should, no doubt, have to add a number of other qualifications before I could answer with confidence the point which my hon. friend has taken. Similarly with his arguments in favour of lending out our balances to banks in India. This is also a question to which there are two sides, and an examination of it would involve a lengthy and probably a somewhat dull dissertation on the metallic basis of credit in our Indian money market. To take only one other instance of the wide range of my friend's speech, I should have to go in some detail into the theory of the convertibility of our currency notes if I were going to attempt an adequate reply to his suggestion for a wider dispersal of our gold resources as a reserve against our paper currency. I must, however, avoid these and other fascinating by-paths into which the hon. member invited me to stray; and I must return to the literal phrasing of his motion—namely, that a substantial portion of the Gold Standard Reserve should be held in India. Now, I take it that if Sir Vithaldass had his own way he would transfer ten or fifteen millions sterling from London to Calcutta. It would come out in sovereigns, and we should then have to decide whether to keep it in sovereigns or to lend it out, as in London, to the banks and on approved short-term securities. My

hon. friend has not said definitely which of these two courses he would follow, but from the general tenor of his arguments I gather that he would not be averse to assisting the industry of India on reasonable terms. He has drawn attention, in the most reasonable and proper manner, to the great fluctuation in the rates of interest in this country, and to the prejudicial effect which these fluctuations must have on trade and business. He believes that a more liberal handling of the Government balances would steady the position, and I may, therefore, for the sake of argument, assume that he would not be unwilling to see our Gold Standard Reserve, or some part of it, lent out on approved security. Now, if this happened it is quite possible that the market would be materially assisted for the moment.

"'It seems to me that there is no real comparison between the inconvenience, on the one hand, of having gold locked up here, six thousand miles from the place where it is wanted and where it can be efficiently employed, and the convenience, on the other hand, of holding a large quantity of gold on securities which closely approach gold in their stability, which we are in a position to sell by cable the moment that it is wanted and at the place where it is going to be used. Sir Vithaldass has supported his arguments by a number of subsidiary considerations in favour of moving our gold from London to India. He points out, for example, that other great countries keep large reserves of liquid gold in their strongholds. I am quite clear of the extent to which he is thinking of gold which is stored by Government to provide for the encashment of convertible notes, and I think it will be found that in the countries which he mentions a considerable proportion of their holdings is necessitated by the size of their paper currency. He also urged that our gold would be useless to us in London in the event of war or panic. If by panic he means an acute financial crisis, I can only repeat what I have said before in another connection, that the Secretary of

State has deliberately accepted full responsibility for making the reserve available when required for the purpose for which it was created. In the event of war, I do not see how our gold would be in any degree more useful in India than in London. If the trouble were in this country, we should have all the and anxiety and expense of practising it. If the war were in Europe, it might be perfectly impossible to ship gold from India to the European markets, and it would remain useless in our hands. Finally, Sir Vithaldass has alluded to the feeling that the Gold Reserve is our own money, and that, as a matter of national pride, it should be in our own country as a visible possession. I know that such sentiment exists, and I am far from despising sentiment even in matters financial ; but I cannot seriously think that it should be weighed for a moment against the practical convenience and value of holding our gold in the place where it can best serve the interests of India. I much regret that I am unable to accept the hon. member's motion.'

"Sir V. D. Thackersey expressed his regret at Government's inability to accept his resolution, and characterised the Finance Member's speech as half-hearted. He once more criticised the representation of City banking interests on the Secretary of State's Council, and deprecated their method of using the Indian Gold Standard Reserve.

"The resolution was negatived by 34 voting against and 33 voting for."

APPENDIX G

MESSRS. SAMUEL MONTAGU & CO.'S FALLACIES

The following extracts from leading articles in the *Times of India* give that newspaper's estimate of the value of Messrs. Montagu's opinions on Indian currency questions :—

"Messrs. Samuel Montagu & Co., the London bullion-brokers, have set themselves up as apologists for the management of Indian currency affairs, although they do not appear to possess any special qualifications entitling them to undertake the part. They cannot be said to be currency experts, for it is not long since they gave expression to the spurious doctrine that the bimetallic character of the currency reserves maintained the ratio of fifteen rupees to the sovereign. Nor have they shown much exact knowledge of our currency affairs, for amongst other grotesque reasons which they lately advanced to prove that the Indian public ought to be content with the administration of the currency they stated that it was an advantage to have a token coinage such as silver rupees capable of rapid expansion at the least possible expense, whereas no such advantage exists, seeing the cost to India of all additions to the token coinage is the same as the cost of a gold coinage. We should have thought that after such an exhibition of inability to appreciate the fundamental principles of a gold standard and the real position of India's token coinage they would have refrained from further attempts to defend

the management of the currency. They are, however, not so easily abashed. In their latest circular to hand they comment on our recent article giving an explanation of the rise in prices that took place from 1904 to 1907, and draw special attention to the statement that 'no other country in the world now ventures to add so largely to its token currency.' They admit that the assertion is quite true, but they say: 'It must be remembered that no other country in the world, whose currency is based on gold, possesses a population of over 300 million souls, the vast bulk of whose wage-earners have an income considerably under £10 a year, and are thus precluded from taking gold into daily use.' No one will dispute that a gold currency would be a superfluity for that portion of the public whose breadwinners' income is as stated, and we are not aware that any one has proposed anything so absurd. It is not a fair statement of the case to suggest that that is the proposition put forward by those who demand a gold currency. If we eliminate the mass of people to whom a gold currency would be a useless luxury, there would still be left a large population who would not be precluded from using gold coins as currency, and it is to serve their currency requirements that the demand for a gold coinage has arisen" (December 1, 1911).

* * * * *

"Messrs. Montagu go on to say that it is a known fact that the Indian Treasury has never refused to issue either sovereigns or silver rupees on demand, and if the people of India require gold for circulation they have but to ask and it will be available. Not one of these statements is strictly accurate. Sovereigns have been refused when they were held in large quantity, and not long ago they were not available at all in many treasuries. Rupees also ran short at one time in at least one currency office. And the assertion that gold would be available if the public wanted and asked for gold for

circulation is an exaggeration. Requests for gold would have to be on a comparatively small scale, else they could not be met. Messrs. Montagu admit that there has been redundancy of rupees which has again been absorbed into the circulation, and they assert that the redundancy was directly caused by the demand of the Indian people in the height of their prosperity. The official version was that the demand for rupees came from trade. Messrs. Montagu apparently see that that contention could not be substantiated, and they throw the blame on to the public. They forget that the Indian people had no option given to them. Rupees are unlimited legal tender and could not be refused. To compel the public to take rupees and then to turn round and say the people demanded them is to trifle with the question. The theory seems to be that the public wanted rupees, otherwise they would have presented them at the currency offices or treasuries to be exchanged for sovereigns" (December 1, 1911).

* * * * *

"It is not surprising that Messrs. Montagu do not clearly describe the measures undertaken to support the great unsound experiment of attempting to hold exchange steady without the usual accompaniment of a gold currency. These cannot be defended. They constitute an intolerable and unfair burden on the public. Messrs. Montagu brush all such considerations aside. Given plenty of time, they say, adequate reserves will be accumulated by the methods adopted, and there will be no necessity for a large loan to form gold reserves. But is the cost to the public of those methods not to be reckoned? Is the pursuit of a steady exchange on the lines hitherto followed to be persevered with, no matter what it costs? Is there to be no attempt to get on to the sound principles originally laid down to secure a steady exchange through the usual means of a gold currency? The fact that the authorities

see the necessity for much larger gold reserves than were formerly deemed necessary reveals the weakness of the system and condemns it at the same time. A colossal blunder has been made and the consequences must be faced ; but it will not help matters to make the public pay the piper before that is necessary by making them provide cash balances for a second reserve in London, as it were, by stealth. Messrs. Montagu hardly state the case fairly when they say the methods adopted obviate the necessity of a large loan to form a Gold Reserve. The public do not understand from that way of putting it that they are providing reserves out of their own pockets and that they have not been given any option of either paying up for reserves or borrowing for that purpose, and by borrowing having only the interest to pay. They do not understand that existing methods are costing far more than a pure gold currency, and that our steady exchange is the most expensive in the world. It will not do to add insult to injury, like Messrs. Montagu, by saying there are only sentimental and no practical reasons for the outcry against present methods. Nor is it of any use to mislead the public, as Messrs. Montagu do, when they advise that the wise course lies in accustoming the public to use sovereigns and rupees side by side and in building up a sufficient reserve from the profits on coining silver. It is futile to endeavour to get sovereigns to circulate side by side with rupees so long as no limit is placed on the issues of fresh rupees. The lessons of currency history are clear on that point. Even the short experience of the gold standard in India teaches the same lesson. Many millions of sovereigns have passed into the circulation and disappeared. Inferior coins, if numerous enough, will always drive out superior coins from the circulation. The greed for coinage profits must be given up. It is debauching. It has debauched the London authorities into taking from the pockets of the public for Gold Reserves, while making it

appear that they were depending on reserves from coinage profits alone" (February 1, 1912).

* * * * *

"Messrs. Montagu are not over particular about their facts, as we have already seen. Nor is it surprising that they should endeavour to pooh! pooh! the cost to India of the measures now being carried out of building up Gold Reserves in London. With callous indifference to the Indian taxpayer, they doubt whether those new reserves entail expense to the natives of India; they say it is a most debatable point indeed; but the matter cannot be dismissed in that way. In two years Government have sent home about sixteen millions sterling, which we must assume, in the absence of any definite information on the subject, has been used for the new reserves. Does that not mean that the reserves are entailing heavy expense to the taxpayer? But, it is said, the cost, if any, can be but a mere trifle compared to the loss of interest involved by holding a huge stock of gold in India so that notes can be redeemed in gold or silver absolutely at the option of the holder, for that would necessitate providing every place of encashment with an amount of gold and also an amount of silver each equal to the face value of the notes likely to be presented. In other words, the cost is a trifle compared with the cost of something else which is not necessary and which nobody wants. That is the sort of palliation Messrs. Montagu offer to the public for making them provide very large cash reserves for use in London. Gold reserves are being built up in London to maintain the ratio of fifteen rupees to the sovereign. If the reserves were located in India, Messrs. Montagu endeavour to make it appear that they would be wanted merely to ensure the redemption in either rupees or gold of the note issue. The alternative is said to be limiting the legal tender of rupees, which is only another gross absurdity. The real alternative is to make a fresh start and

get on to the correct principles and systems originally and authoritatively laid down, and to abandon the methods which sacrifice the true interests of this country so that London may benefit" (March 16, 1912).

APPENDIX H

PROPOSED DRAFT BILL BY THE HON. MR. WEBB

An Act to amend the Indian Coinage Act, 1906.

WHEREAS it is expedient to amend the Indian Coinage Act, 1906, in manner hereinafter appearing,

It is hereby enacted as follows :—

1. (*a*) This Act may be called the Indian Coinage Amendments Act, 1912.

(*b*) It extends to the whole of British India, inclusive of British Baluchistan, the Santhal Parganas, and the Pargana of Spiti.

2. In this Act "the Gold Standard Reserve Fund" includes the existing Gold Standard Reserve Fund and all sums already received to the credit of the Gold Reserve Fund and the Gold Standard Reserve Fund from the coinage of new rupees and half-rupees and all other sources since the 26th June, 1893.

3. After Section 3 of the Indian Coinage Act, 1906, hereinafter called "the said Act," the following sections shall be inserted :—

Gold Coinage.

(4) The following gold coins shall be coined at the Mint for issue under the authority of the Governor-General in Council : namely,

(*a*) A Gold Mohur or Indian sovereign.
(*b*) A Pagoda or Indian half-sovereign.

(5) (*a*) The Standard weight of the Gold Mohur or Indian sovereign shall be 123·27447 grains troy; and its standard fineness shall be as follows: namely, eleven-twelfths fine gold and one-twelfth alloy.

(*b*) The Pagoda or Indian half-sovereign shall be of proportionate weight and of the same fineness,

Provided that, in the making of gold coins a remedy shall be allowed of an amount not exceeding the following, namely :—

Denomination of Coin.	Remedy Allowance.	
	Weight per Piece.	Millesimal Fineness.
Gold Mohur or Indian Sovereign ...	0·20 grains.	2
Pagoda or Indian half-sovereign ...	0·15 „	2

(6) Where any person brings to the Mint any gold bullion, such bullion shall be assayed and coined and delivered out to such person, without any charge for such assay or coining, or for waste in coinage,

Provided that—

(*a*) If the fineness of the whole of the bullion so brought to the Mint is such that it cannot be brought to the standard fineness under this Act of the coin to be coined thereout, without refining some portion of it, the master of the Mint may refuse to receive, assay, or coin such bullion.

(*b*) Where the bullion so brought to the Mint is finer than the standard fineness under this Act of the coin to be coined thereout, there shall be delivered to the person bringing the same such additional amount of coin as is proportionate to such superior fineness.

No undue preference shall be shown to any person under this section, and every person shall have priority according to the time at which he brought such bullion to the Mint.

4. In Section 4 of the said Act, after the words "silver coins" the word "only" shall be omitted.

5. In Section 10 of the said Act, Clause (*a*), after the word "all" the words "gold, silver, nickel, and bronze" shall be inserted, and the words "referred to in Sections 4, 6, and 8" shall be omitted.

6. In Section 10 of the said Act, Sub-section 2, after the word "designs" the words "of the gold coins coined under this Act shall be those prescribed for the British sovereign and half-sovereign; and" shall be inserted.

7. After Section 10 of the said Act, the following Section shall be inserted:—

(14) The Gold Mohur or Indian sovereign and the Pagoda or Indian half-sovereign shall be a legal tender (as the equivalent of fifteen rupees and seven and a half rupees respectively) for a payment of any amount,

Provided that the gold coins,

(*a*) Have not lost weight so as to be less than 122·5 grains for the

Gold Mohur or Indian sovereign and 61·125 grains for the Pagoda or Indian half-sovereign.

(*b*) Have not been defaced.

8. After Section 20 of the said Act the following sections shall be inserted :—

(25) The Governor-General in Council may from time to time issue to the master of the Mint out of the general revenues of the Government of India such sums as may be necessary to enable him to purchase bullion in order to provide supplies of coin for the public service.

(26) All sums received by the master of the Mint in payment for rupees and half-rupees produced from silver bullion purchased for coinage shall, after the cost of the silver bullion used in the manufacture of the said rupees and half-rupees has been deducted, be kept separate from the general revenues of the Government of India and paid into the Gold Standard Reserve Fund.

(27) The Gold Standard Reserve Fund shall be held in India in gold.

9. Sections 4 to 10 inclusive of the said Act shall be re-numbered 7 to 13 respectively ; Sections 11 to 20 inclusive of the said Act shall be re-numbered 15 to 24 respectively ; and Sections 21 to 24 of the said Act shall be re-numbered 28 to 31 respectively.

Statement of Objects and Reasons.

The object of this Bill is to give effect to the recommendations of the Indian Currency Committee, 1898.

Notes on Clauses.

Clause 3.—The additional sections are taken from the British Coinage Act; the weight, fineness, and remedy for the Gold Mohur and Pagoda are exactly the same as those of the British sovereign and half-sovereign.

Clause 7.—The legal tender clause has been adopted from the legal tender provisions of the British Coinage Act.

Clause 8.—The new sections are to give powers to the Government of India to provide coins for the public use as may be found expedient, to provide for profits on the manufacture of rupees and half-rupees being carried to the Gold Standard Reserve Fund, and to provide for the retention of the Gold Standard Reserve Fund in gold in India.

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